

T H E
BROOKINGS
R E V I E W

Fall 1984

Income and Opportunity:

Robert Z. Lawrence on the Middle Class

Henry J. Aaron on Welfare Reform

*Gary Burtless on Manpower Policies
for the Disadvantaged*

Malcolm R. Lovell, Jr., on Displaced Workers

Plus:

*A. James Reichley on Religion
and Political Realignment:*

*"As Republicans seem to have gained
a reliable bloc of supporters among evangelicals,
Democrats have lost the comparable
advantage they previously held among Catholics."*

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Sectoral Shifts and the Size of the Middle Class

Robert Z. Lawrence

WE ARE HEARING these days, from a variety of observers, that the middle class in the United States is or soon will be shrinking. As the U.S. economy shifts away from basic manufacturing and towards high-technology and service industries, the number of mid-level jobs will decline — or so the argument goes. Some commentators, leaping from presumption to prescription, have urged that the middle class be safeguarded by initiatives — such as protectionist trade measures and selective industrial policies — designed to prop up basic manufacturing industries and forestall the structural changes that are taking place in the economy.

Those who anticipate the dwindling of the middle class contend that the industries in which employment is decreasing — the automobile and steel industries, for example — have traditionally been characterized by a profusion of mid-level jobs. High-technology and services industries are seen as offering mostly high-paying and low-paying jobs — the former for professionals and managers, the latter for clerical and assembly-line workers. Thus, the flow of employment away from basic manufacturing is seen as auguring the contraction of the middle class.

The evidence adduced in support of this line of reasoning is typically anecdotal or selective. In this article, I will examine more comprehensive data to determine how much the distribution of earnings in high-technology and services industries differs from the distribution of earnings in basic manufacturing. I will then consider what effects sectoral shifts of employment have had on the distribution of earnings in the workforce as a whole. Lastly, I will discuss the patterns of employment and earnings likely to materialize in the coming decade.

Two caveats should be noted at the outset. The first is that sectoral shifts are not the only factors that shape the distribution of earnings; other forces at work include changes in skill and education levels, occupational preferences, and the demographics of the workforce. The second is that the distribution of household incomes is not a function solely of the distribution of earnings; among the other variables that affect household incomes are the number of workers per family, the value of non-cash benefits received by workers, the distribution of income-earning assets, and the impact of government tax and transfer programs. This essay does not purport to be a complete analysis of the determinants of either the distribution of earnings or of household incomes; it is intended to shed light on the impact of sectoral shifts. Is the bottom dropping out of the middle?

Robert Z. Lawrence is a senior fellow in the Economic Studies program at Brookings. His publications include Can America Compete? and, with Barry P. Bosworth, Commodity Prices and the New Inflation.

"Alarmism about the ostensible collapse of the middle class has contributed to misconceptions about the extent and pace of the structural change occurring in the economy."

Sectoral Differences in the Distribution of Earnings

The median usual weekly earnings of males employed full-time in 1983 was \$379 per week (\$19,708 per year). Earnings data for 1983 are reported only in terms of rather large brackets. For purposes of this analysis, therefore, middle-class earnings are defined as those between \$250 and \$499 per week (\$13,000 to \$25,948 per year); the median figure just mentioned is almost exactly at the midpoint of this range. Earnings above and below the middle bracket are defined as upper-class and lower-class respectively.

Table 1 reports the distribution of usual weekly earnings in the United States by economic sector. It shows that, contrary to the common perception, the proportion of full-time workers earning middle-class incomes in the production of goods — 46 percent — is exactly the same as the proportion for the rest of the economy. Durable goods manufacturing does rank second among all sectors in the proportion of its workers receiving middle-class earnings (50 percent). However, the public sector has the most intensively middle-class workforce (55 percent), and in third place is a services sector: transportation, communication, and public utilities (49 percent). There is virtually no difference between the proportions of middle-class earners in non-durable manufacturing (44 percent) and in such categories as finance, insurance, and real estate (43 percent) and miscellaneous services (43 percent). In fact, if the entire manufacturing workforce were to be reemployed with earnings patterns typical of the rest of the economy, the aggregate distribution of earnings would change very little. The numbers of workers receiving upper-class and middle-class earnings would decline by only 3.0 and 1.7 percent respectively.

The data indicate substantial differences between the earnings pattern of male workers and female workers. For females, goods production in general and manufacturing in particular actually provide lower proportions of middle-class earnings than obtain in the rest of the economy. The earnings distribution for female workers in the large "miscellaneous services" category is identi-

cal to the distribution for females in the economy overall.

A different data base and a slightly different definition of middle-class earnings were used to examine earnings patterns at a more disaggregated level. Table 2 shows these patterns in the major high-technology sectors.¹ The data reported here, just released from the 1980 census, include both part-time and full-time earnings. They flatly refute the contention that high-technology industries offer relatively few middle-class job opportunities. All of the major high-technology sectors have smaller shares of lower-class jobs than manufacturing in general has, and almost all of them have larger shares of middle-class jobs. The disaggregated data do confirm that the automobile and steel industries are important sources of upper-class jobs, but the proportion of their workers receiving middle-class earnings is actually lower than the proportion for most of the high-technology industries.

In short, therefore, we should expect, first, that everything else being equal, declines in the share of total employment accounted for by manufacturing would yield only small reductions in the proportion of workers in the middle-class earnings bracket and, second, that continued shifts of employment within manufacturing towards the high-technology industries would have little impact on the earnings distribution.

Sectoral Shifts and Middle-Class Jobs

An examination of comparable data on full-time earnings in 1969 reveals what has happened to the distribution of earnings over time. Once again, the median earnings level for male workers — \$142 per week in 1969 — is used to define the middle-class category. The data have been adjusted to ensure that the category's range around the median is similar to that for 1983. Measured in 1983 dollars (using the consumer price index), the 1969 male median income amounts to about \$20,000 — very close to the 1983 male median of \$19,708.

In the aggregate, as shown in table 1, the proportion of workers receiving middle-class earnings declined between 1969 and 1983 — from 50 percent to 46 percent. One percentage point of this decrease went to the upper-class category and three points to the lower-class group. The declines in the middle were widely diffused; some slippage occurred in every sector except agriculture and miscellaneous services. However, the dropoff was steeper in goods production than in the economy as a whole, and it was especially marked in such high-wage sectors as mining, durables manufacturing, and transportation.

When the data are categorized by gender, a more complex picture emerges. The declining middle is confined to males. For female workers, what we find in virtually every major sector of the economy is a shrinking lower class. The proportions of female workers in the middle- and upper-class categories have increased. This suggests that there is no connection between the feminization of poverty and shifts in the earnings distribution for females.

What accounts for the declining middle? The most

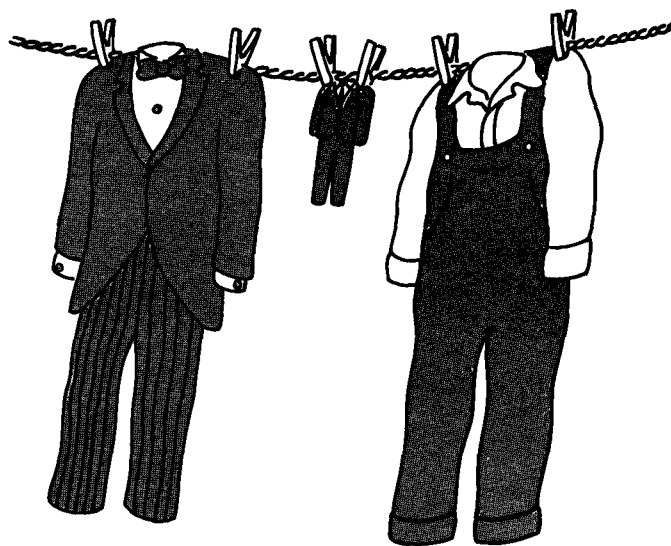
common explanation — that sectors with relatively small proportions of middle-class jobs have expanded the most rapidly — does not stand up to careful scrutiny. A constant shares analysis, reported in table 3, decomposes the growth in middle-class jobs into (i) a portion due to the overall growth of the labor force; (ii) a portion due to differences in growth rates among sectors; (iii) a portion due to differences in the growth rates of employment of males and females; and (iv) an unexplained residual.² The actual number of middle-class jobs increased by about 4 million between 1969 and 1983. The constant shares analysis finds that had that number increased at the same pace as overall employment during the period, there would have been 3.3 million more middle-class jobs in 1983. Of this shortfall, however, only about 271,000 “missing jobs” can be accounted for by the relatively high growth rates of sectors with below-average proportions of middle-class workers — and another 399,000 by the higher growth in female employment.

A more powerful explanation for the declining middle can be found in the changing age distribution of the labor force. The baby boom generation has entered the job market during the sample period, and the earnings of this group — and within it, of younger men especially — have declined relative to the earnings of the total workforce. Between 1969 and 1983, the ratio of the median earnings of males under age 25 to those of males above age 25 dropped from 74 percent to 55 percent. As table 4 demonstrates, the declining middle has been closely associated with age. Among younger workers, it has been accompanied by an expansion of the lower-class earnings category; among workers above the age of 35, it has been contained within an enlargement of the upper-class group. As table 4 indicates, these patterns are shifting among male workers. For female workers, on the other hand, it is only in the 25-and-under age group that the middle-class earnings segment has declined and the lower-class category has expanded.

The U.S. economy has displayed remarkable flexibility in providing employment for the massive numbers of young people and females who entered the job market over the past decade and a half. In addition, it has improved the access of female workers to higher-paying jobs. While these enhanced opportunities appear to have offset the impact of a large cohort for all but the youngest females, increasing competition from both male and female job-seekers has depressed the earnings of young males.³

According to research surveyed by Louise B. Russell of Brookings, the reductions in earnings due to a large cohort appear to be greatest in the early stages of careers and to diminish thereafter. This suggests that over time, as the large population of baby-boom men matures, the middle of the earnings distribution could thicken once again.

What are the policy implications of the foregoing analysis? Sectoral shifts are but one factor affecting the distribution of earnings; others — such as changes in the levels and pattern of technological development, unionization, age, gender, and international competition — may play even more substantial roles. Had



Is the middle class shrinking?

Robert Wiser

U.S. policy been geared to promote and protect the durables manufacturing sector, to safeguard the middle class, as some are now urging be done, that effort would have backfired. The middle declined more rapidly in durables manufacturing than in most other sectors of the economy. If this society seeks to change its distribution of income, it should do so directly — by altering tax policies or by expanding programs to assist the disadvantaged — rather than by favoring sectors that at one point in time have relatively high proportions of middle-class earnings.

The Future

Alarmism about the ostensible collapse of the middle class has contributed to misconceptions about the extent and pace of the structural change occurring in the economy. The employment projections developed by the Bureau of Labor Statistics in the U.S. Department of Labor are useful antidotes to those misconceptions.

What is most remarkable about BLS projections is that, as reported in Tables 4 and 5, they suggest that the broad sectoral and occupational composition of U.S. employment will be very similar in 1995 to what it was in 1982. The proportion of employment in goods production is expected to be 73.3 percent in 1995, about the same as the 1982 level of 73.7 percent. The BLS figures show the proportion of employment in manufacturing declining only slightly, from 18.8 percent to 18.4 percent, and the share of the work force in blue-collar jobs moving from 32.7 percent to 31.1 percent. The largest shifts between 1982 and 1995 will be not from the production of goods to the production of services, but rather, within the services category, from the public sector to the private sector. Employment in services industries will rise from 22.1 to 24.5 percent, while government employment will drop from 15.4 to 13.5 percent.

The large increases predicted in the numbers of building custodians, cashiers, secretaries, and clerks are

**Table 1. Earnings
Distribution across Sectors,
Categorized by High, Middle
and Low Earnings, 1969,
1983^a**

Percent

Sector	Distribution in 1969								
	Total			Males			Females		
	High	Mid	Low	High	Mid	Low	High	Mid	Low
Total	20	50	30	28	56	16	5	39	56
Goods producing	21	53	26	26	58	16	2	38	60
Agriculture	5	25	70	6	26	68	0	16	84
Mining	32	52	15	35	52	13	1	56	44
Construction	32	50	18	33	49	17	5	57	38
Manufacturing	20	55	25	26	62	13	2	38	60
Durables	22	60	18	27	62	11	3	49	48
Nondurables	15	49	36	23	60	17	2	28	71
Services	17	45	38	27	54	19	3	33	64
Transportation, communication, and public utilities	23	61	16	28	62	10	4	55	41
Trade	15	43	41	23	54	23	2	25	74
Finance, insurance, and real estate	22	45	33	40	48	12	4	42	54
Private households	2	9	89	5	26	70	2	7	92
Miscellaneous services	15	42	43	28	49	23	4	37	59
Public sector	24	56	20	34	56	10	12	56	32

Sector	Distribution in 1983								
	Total			Males			Females		
	High	Mid	Low	High	Mid	Low	High	Mid	Low
Total	21	46	33	30	47	23	7	44	49
Goods producing	24	46	30	30	48	22	6	42	52
Agriculture	3	27	69	4	28	68	1	21	78
Mining	48	42	9	53	40	8	28	55	16
Construction	28	45	27	30	45	25	6	51	42
Manufacturing	23	48	29	31	51	18	6	41	53
Durables	26	50	24	32	51	17	7	49	44
Nondurables	19	44	37	28	51	21	5	34	61
Services	19	42	40	30	43	27	6	40	54
Transportation, communication, and public utilities	36	49	15	43	45	12	14	58	27
Trade	14	38	48	21	44	35	3	28	69
Finance, insurance, and real estate	22	43	35	44	39	18	7	46	46
Private households	2	8	90	2	18	80	1	7	92
Miscellaneous services	16	43	41	28	41	31	7	44	49
Public sector	23	55	23	32	53	15	12	56	32

Source: Bureau of Labor Statistics; unpublished data, Usual Weekly Earnings of Employed Full-Time Wage and Salary Workers, 1969, 1983.

a. Income categories established using median male weekly earnings of \$142 in 1969 and \$379 in 1983 as a middle benchmark. The categories are defined as follows:

high (1983) = \$500+
mid (1983) = \$250-499
low (1983) = \$0-249

high (1969) = \$187+
mid (1969) = \$94-187
low (1969) = \$0-93

Table 1 (continued)

Sector	Differences in Distributions, 1983-1969								
	Total			Males			Females		
	High	Mid	Low	High	Mid	Low	High	Mid	Low
Total	+1	-4	+3	+2	-9	+7	+3	+5	-7
Goods producing	+3	-7	+4	+4	-10	+6	+4	+4	-8
Agriculture	-2	+2	-1	-2	+2	0	+1	+5	-6
Mining	+16	-10	-6	+18	-12	-5	+27	-1	-28
Construction	-4	-5	+9	-3	-4	+8	+1	-6	+4
Manufacturing	+3	-7	+4	+5	-11	+5	+4	+3	-7
Durables	+4	-10	+6	+5	-11	+6	+4	0	-4
Nondurables	+4	-5	+1	+5	-9	+4	+3	+6	-10
Services	+2	-3	+2	+3	-11	+8	+3	+7	-10
Transportation, communication, and public utilities	+13	-12	-1	+15	-17	+2	+10	+3	-14
Trade	-1	-5	+7	-2	-10	+12	+1	+3	-5
Finance, insurance, and real estate	0	-2	+2	+4	-9	+6	+3	+4	-8
Private households	0	-1	+1	-3	-8	+10	-1	0	0
Miscellaneous services	+1	+1	-2	0	-8	+8	+3	+7	-10
Public sector	-1	-1	+3	-2	-3	+5	0	0	0

Table 2. Earnings Distribution^a of the Experienced Civilian Labor Force, Selected Industries, 1979

	Total			Males			Females		
	High	Mid	Low	High	Mid	Low	High	Mid	Low
High technology ^b	34	37	29	46	36	19	8	39	53
Manufacturing	29	34	38	39	36	25	6	29	65

Percent

Source: Bureau of the Census, pre-publication data, table 290, Earnings of the Experienced Civilian Labor Force by Industry in 1979.

a. Earnings categories established using median male annual earnings of \$14,442 in 1979 as a middle benchmark. The categories are defined:
 high=\$18,748.7+
 mid=\$10,095.4-18,748.6
 low=\$0-10,094.4

b. Machinery except electrical; electrical machinery, equipment and supplies; chemicals and allied products; aircraft and parts; professional and photographic equipment.

Table 3. Constant Shares Analysis: Explaining the Difference in Middle Class Jobs^a, 1969-1983

	Number of Jobs
Middle class jobs in 1983	32,342
Middle class jobs in 1969	28,343
Change in middle class, 1983-1969	+3,999
Explaining change in middle class jobs:	
(1) Due to increase in total full-time employment	7,256.0
(2) Due to changing sectoral composition	-270.6
(3) Due to changing mix of males and females	-398.7
(4) Residual	-2,587.6

Thousands

Source: Bureau of Labor Statistics, unpublished data; Usual Weekly Earnings of Employed Full-Time Wage and Salary Workers, 1969, 1983.

a. For further elaboration of methodology, see Edward E. Leamer and Robert Stern, *Quantitative International Economics* (Allyn and Bacon, 1970).

"... sectoral shifts are likely to have a relatively small impact on the economy-wide distribution of earnings. However, the effects of changes in the age distribution of the population will be more substantial. The middle ranks of the earnings distribution are likely to burgeon considerably as the baby boom generation matures."

often cited as evidence that the new jobs of the future will be found only in low-wage occupations. What is overlooked, however, is the fact that these lines of work account for large employment shares today. The ten job categories for which the BLS foresees the largest absolute increases accounted for 18.9 percent of all employment in 1982 and are expected to generate 20.0 percent in 1995.

What do the projections of sectoral growth rates portend for the distribution of earnings? If we use the employment forecasts for 1995 and assume that within each sector the distribution of earnings by gender in that year will be about the same as in the 1983 pattern reported earlier, then, as table 6 shows, the economy-wide distribution of earnings remains virtually constant.

Some have suggested that structural change has been proceeding so rapidly that the BLS forecasts are no longer valid. Critics have been especially skeptical about the Bureau's projection that manufacturing employment will surpass its previous high of 21 million. However, the behavior of employment in the current recovery has been consistent with the BLS prediction. Between December, 1982, and July, 1984, the number of employees on U.S. nonagricultural payrolls grew by 5.8 million; employment in manufacturing increased 1.62 million.

It is widely believed that the shift toward high-technology and services industries exacerbated structural unemployment during the last recession. However, the relationship between changes in manufacturing employment and GNP has remained remarkably stable.⁴ On the basis of previous patterns, the very small increase in GNP between 1979 and 1982 — only 6.4 percent — would have been expected at 10.6 percent decline in manufacturing employment; the actual decrease was 10.4 percent. Similarly, it would have been anticipated that the 7.8 percent rise in GNP between the first quarter of 1983 and the first quarter of 1984 would generate a 6.8 percent jump in manufacturing employment — a result very close to the 6.2 percent increase that occurred.

As we have seen, sectoral shifts are likely to have a relatively small impact on the economy-wide distribution of earnings. However, the effects of changes in the age distribution of the population will be more substantial. The middle ranks of the earnings distribution are likely to burgeon considerably as the baby boom generation matures. Relatively smaller cohorts of younger workers will enter the labor force, and the workforce participation rates of females will stabilize — developments that will improve overall earnings prospects.

Notwithstanding this fairly sanguine appraisal of the aggregate effects of structural shifts, we should not overlook the attendant difficulties of dislocated workers. However, the misfortunes that befall workers in particular sectors should not become the basis for a national policy aimed at inhibiting the quite natural structural changes that are occurring. Instead, policy-makers should directly assist dislocated workers by designing programs to facilitate their retraining and relocation.

A focus on certain industries and modes of production marks nations as victims of their time. During the transition from an agricultural to an industrial economy,

Table 4. Distribution of Earnings by Age Categories, 1969, 1983

Males and females

Age group	Distribution 1983			Distribution 1969			Difference 1983-1969		
	High	Mid	Low	High	Mid	Low	High	Mid	Low
Under 25 years	4	32	64	5	46	49	-1	-14	+15
25-29 years	15	52	33	18	59	23	-3	-7	+10
30-34 years	23	52	25	25	53	22	-2	-1	+3
35-39 years	29	48	23	27	50	23	+2	-2	0
40-44 years	29	46	25	27	48	25	+2	-2	0
45-49 years	29	45	26	25	50	25	+4	-5	+1
50-54 years	29	46	26	22	50	28	+7	-4	-2
55-59 years	27	47	27	19	50	31	+8	-3	-4
60-64 years	24	47	29	19	49	32	+5	-2	-3
65-69 years	19	39	42	15	38	47	+4	+1	-5
70 years and over	14	29	57	10	24	66	+4	+5	-9

Males

Age group	Distribution 1983			Distribution 1969			Difference 1983-1969		
	High	Mid	Low	High	Mid	Low	High	Mid	Low
Under 25 years	5	37	58	8	56	36	-3	-19	+22
25-29 years	21	54	25	23	64	13	-2	-10	+12
30-34 years	31	52	16	32	57	11	-1	-5	+5
35-39 years	40	47	13	36	54	10	+4	-7	+3
40-44 years	43	45	12	37	53	10	+6	-8	+2
45-49 years	42	45	13	35	54	11	+7	-9	+2
50-54 years	42	45	14	31	56	13	+11	-11	+1
55-59 years	38	47	14	26	57	16	+12	-10	-2
60-64 years	34	49	17	24	54	21	+10	-5	-4
65-69 years	28	41	32	19	43	38	+9	-2	-6
70 years and over	18	32	49	13	30	58	+5	+2	-9

Females

Age group	Distribution 1983			Distribution 1969			Difference 1983-1969		
	High	Mid	Low	High	Mid	Low	High	Mid	Low
Under 25 years	2	26	72	1	35	63	+1	-9	+9
25-29 years	7	49	44	5	47	48	+2	+2	-4
30-34 years	10	52	38	4	42	53	+6	+10	-15
35-39 years	11	49	40	5	41	54	+6	+8	-14
40-44 years	10	46	44	6	39	56	+4	+7	-12
45-49 years	10	45	45	5	41	54	+5	+4	-9
50-54 years	8	47	45	6	39	55	+2	+8	-10
55-59 years	8	45	47	7	37	56	+1	+8	-9
60-64 years	7	46	47	8	37	55	-1	+9	-8
65-69 years	7	36	56	6	27	67	+1	+9	-11
70 years and over	7	24	69	5	14	81	+2	+10	-12

Source: Bureau of Labor Statistics, unpublished data; Usual Weekly Earnings of Employed Full-Time Wage and Salary Workers by Age, Sex, and Race, 1969-1983.

Table 5. Percent of Actual and Projected Civilian Employment by Occupation, 1982, 1995

Source: U.S. Department of Labor, Bureau of Labor Statistics, *Employment Projections for 1995* (March 1984), p. 36.

	Percent		Difference
	1982	1995	
Major groups			
Professional	16.3	17.1	+0.8
Managers	9.4	9.6	+0.2
Sales workers	6.9	6.9	+0.0
Clerical	18.8	18.9	+0.1
Craft	11.4	11.6	+0.2
Operatives	12.8	12.1	−0.7
Service workers	16.0	16.3	+0.3
Laborers	5.8	5.5	−0.3
Farmers	2.7	1.9	−0.8
Occupations with largest growth			
Building custodians	2.8	2.8	0.0
Cashiers	1.6	1.8	+0.2
Secretaries	2.4	2.5	+0.1
General office clerks	2.3	2.4	+0.1
Sales clerks	2.9	2.8	−0.1
Nurses, registered	1.3	1.5	+0.2
Waiters and waitresses	1.6	1.8	+0.2
Teachers, kindergarten	1.4	1.5	+0.1
Truckdrivers	1.6	1.6	0.0
Nursing aides	1.2	1.3	+0.1
Sales representatives, technical	1.3	1.3	0.0

Table 6. Actual and Projected Employment by Major Sectors, 1982, 1995

Source: U.S. Department of Labor, Bureau of Labor Statistics, *Employment Projections for 1995* (March 1984), p. 24.

	Employment (in thousands)			Percent distribution		
	1982	1995	% change, 1982-1995	1982	1995	Difference
Total	102,315	127,563	24.7	100	100	
Agriculture	2,815	2,550	-9.4	2.8	2.0	-0.8
Mining	742	864	16.4	0.7	0.7	0.0
Construction	5,491	7,925	44.3	5.4	6.2	+0.8
Manufacturing	19,234	23,491	22.1	18.8	18.4	-0.4
Transportation and public utilities	5,543	6,637	19.7	5.4	5.2	-0.2
Trade	22,536	28,545	26.7	22.0	22.4	+0.4
Finance, insurance and real estate	5,899	7,685	30.3	5.8	6.0	+0.2
Private households	1,635	1,346	-17.7	1.6	1.1	-0.5
Services	22,617	31,290	38.4	22.1	24.5	+2.4
Federal government	2,739	2,960	8.1	2.7	2.3	-0.4
State and local government	13,064	14,270	9.2	12.8	11.2	-1.6

Table 7. Actual and Projected Earnings Distributions, 1983, 1995

Percent

Source: The 1995 projected distribution is calculated using 1983 sector proportions (elsewhere described) and the corresponding 1995 sector growth rates (U.S. Department of Labor, Bureau of Labor Statistics, *Employment Projections for 1995*, March 1984, p. 24).

	1983 Distribution			1995 Projected Distribution		
	High	Mid	Low	High	Mid	Low
Total	21.0	45.6	33.4	20.8	45.4	33.8
Males	30.1	46.7	23.1	30.2	46.6	23.2
Females	7.6	43.9	48.5	7.5	43.7	48.9

there arose in eighteenth century France a group of people known as the physiocrats, who believed that agricultural production was the source of all wealth. Today this notion seems rather quaint. Nevertheless, in the midst of the current transition to an economy centered on technology and services, there are many who assert that the production of goods by heavy industry is the source of our society's affluence. Such views will undoubtedly seem anachronistic to our descendants. One legacy of the industrial revolution was a worldwide agricultural system shackled with government trade barriers. It would be most unfortunate if the move from economies dominated by heavy industry to those centered around the production of services brought with it, in the form of national industrial policies, a new set of fetters.

Some Concluding Observations

Although typically discussed in terms of its impact on the overall distribution of income and on living standards, the worry about the shift to services industries also reflects a concern for the plight of highly paid blue-collar workers who are losing their jobs. If a job in the automobile industry in Detroit is replaced by an insurance job in San Francisco that pays the same salary, the distribution of income will not change. However, the autoworker's life will. The real issue for debate is this: How should society respond if an individual worker's income declines from the eightieth percentile to the fortieth? While the government has accepted responsibilities to ensure minimum living standards and employment opportunities, it has thus far not guaranteed individuals that their current income levels will never drop. What government's response ought to be to the dislocations of individual workers is not an empirical issue that social scientists can settle, but a normative question for the society at large to address.

It is commonly supposed that since workers displaced from jobs in manufacturing industries are often forced to accept lower paying positions their displacement betokens a reduction in society's living standards. But the social benefits of innovations cannot be judged by what happens to the incomes of the individuals they displace. The invention of an engine that runs on water instead of gasoline would provide great social benefits, but it might well impoverish the oil magnates of today. Similarly, the shift in the labor force from goods to services production reflects improvements in productivity that raise living standards in the aggregate, even if some individuals may suffer a decline in their income.

Indeed, like the earlier transition to an industrial society, the growth of the service economies reflects and reinforces growing social affluence. Increases in services production have not come at the expense of goods production. Measured in 1972 dollars, U.S. goods output was 45.6 percent of GNP in 1960, 45.8 percent in 1979, and 46.2 percent in the first quarter of 1984. Just as rising farm productivity increased food production while freeing farm labor for employment in the factories, relatively rapid growth in manufacturing productivity is increasing goods production while making

"It would be most unfortunate if the move from economies dominated by heavy industry to those centered around the production of services brought with it, in the form of national industrial policies, a new set of fetters."

available a larger share of the labor force for employment in services. In the long run, the expansion of employment in services will benefit the economy as a whole; the advent of this expansion reflects advances in technology and productivity that enable us to meet the demand patterns of a high-income population.

Although beneficial in the aggregate, the transition to services will produce some losers. Public policy should not try to hinder this transition, but it may seek to redistribute its benefits.

1. As is customary, these high-tech sectors are selected according to the shares of spending on research and development. See Robert Z. Lawrence, *Can America Compete?* (Brookings Institution, 1984), pp. 148-49.

2. The sectors used are agriculture, mining; construction; manufacturing; transportation, communications, and public utilities; trade; private households; finance, insurance, and real estate; miscellaneous services; and public sector.

3. For a more extensive discussion of the evidence of the impact of age cohort size on earnings, see Louise B. Russell, *The Baby Boom Generation and the Economy* (Brookings Institution, 1982), chap. 4.

4. See Alice M. Rivlin, ed., *Economic Choices* (Brookings Institution, 1984), p. 121.

Six Welfare Questions Still Searching for Answers

Henry J. Aaron

REREADING THE declarations of war on poverty penned in the mid-1960s is a bit like contemplating baby pictures of now-grown children. There is a tendency to lapse into reverie, to recall fondly bygone emotions and events, and to muse on how innocent and full of hope the little ones — and their parents — once were. But then one realizes that those times are gone forever and cannot be retrieved.

And so it is to look back at the war on poverty. Two decades of frustration with imperfect policies and sluggish economic growth have left most of those present at the parturition with a sophistication and wary cynicism quite out of tune with the can-do optimism of the 1960s.

What is most striking about the emphasis on welfare in those early days of the anti-poverty campaign is that there wasn't any. The 1964 State of the Union Address did call for medical insurance under social security, an expanded food stamp program, and more public housing. But there was no mention — in the President's speech, in the famous chapter in the 1964 report of the Council of Economic Advisers, or in the formal announcement of the war on poverty — of any cash assistance program.

In fact, welfare developed into a prominent issue only after it became clear that millions of Americans would remain poor despite government's best efforts to add to their human capital, to lower the barriers of discrimination, and to cultivate a strong economy. Then, gradually, welfare — and welfare reform — emerged as a primary, if not the dominant, instrument for combatting poverty.

The story of this transformation has been told often, and I shall not repeat it here. Instead, I shall focus on six questions that go to the heart of the ongoing debate about welfare policy, six questions that deal with attitudes toward the poor and with the effects of welfare on their behavior. During the past two decades, these attitudes and assumptions have changed greatly. In these changes may be read the achievements and failures of the effort to reform welfare.

— I —

The first two questions must be taken together.

1. Who should be eligible for aid?
 - a. by income?
 - b. by category?
2. What is the effect of welfare on pretransfer income (in other words, on earnings)?

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President Johnson refused to mention welfare in connection with the war on poverty because he was convinced that any linkage with the former would damage the prospects of enacting the various programs to increase opportunities for the poor. His perception was that Congress would support programs to help people become self-supporting, but that it would not provide cash assistance to people *potentially* capable of self-support. Hence, the central tenets of the war on poverty were that those who might gain from training should be eligible for it; that everyone would benefit from removal of discrimination; and that a rising economy would raise all ships. Cash assistance was to remain limited to those who were not *expected* to work: the aged, the blind, the disabled, and single parents.

These expectations changed for two reasons. The first was an outgrowth of the premises of the war on poverty. If poverty could be substantially eliminated by education and training, by anti-discrimination laws, and by economic growth, then the causes of poverty were largely external to the poor. That in turn meant that cash assistance to those in poverty could be justified either as an act of compassion for the victims of exogenous forces or as a carrying cost until sound investments — in training programs, for example — began to pay out.

A second factor was that economists discovered the welfare system and found it inelegant, a complicated mishmash of rules and formulas. That the welfare system was complex is beyond question. But it was probably no more complex than many other federal programs — social security, for example — that were not found esthetically repugnant. Nevertheless, more united by a common revulsion against messiness than they were divided by ideology, academics of the political left and right joined together in calling for the provision of income assistance according to simple standards of economic need.¹

Two assumptions lay behind the conviction that economic status alone should determine eligibility for cash assistance. The first, already noted, was that poverty was not the fault of the poor, that it was a condition imposed on them from without. The second was that cash assistance would not adversely change the behavior of its recipients. I have no hard data on the pervasiveness of these assumptions. I believe, however, that the perception that poverty among blacks was attributable to discrimination was far more widespread before the civil rights achievements of the 1960s and 1970s than it is today. The willingness to provide cash assistance to the poor without conditions seems to have been an early casualty of the slow economic growth in the United States since the first round of OPEC price increases.² If American workers were to be buffeted by events over which they had no control, they were less willing to provide aid to a few, with or without conditions.

The question of how cash aid affects the behavior of recipients has been the subject of intense study for the past two decades. More than \$100 million and thousands of person-years have been lavished on research to measure the responses of those assisted.

The results of this analysis were not anticipated by

the original sponsors of the cash assistance experiments. They believed that eligibility for aid should be based solely on income, not on marital status. They surmised that the general public expected recipients of cash assistance to reduce their work efforts sharply — and they were confident that the general public was wrong.³

The proponents of such assistance won this battle, but they lost the war. Their experiments found that few men who were offered cash assistance actually quit their jobs and that the reduction in the number of hours they worked was under 10 percent. But the tests also suggested that for every \$100 provided to male-headed families, earnings would fall \$25 to \$50.⁴ The effect of cash grants on the labor supply of female family heads was somewhat greater than the effect on males — and the impact on the behavior of wives and young single adults was greater still. This leakage could be reduced by imposing effective work requirements, but that strategy raised other questions to be addressed below.

The experiments established that the extension of welfare to two-parent families adversely changed their work patterns *enough to matter*. It was no longer possible to maintain that the behavior of the poor would not be adversely affected if cash assistance were provided until they could become self-supporting. It is doubtful that the reformers ever seriously threatened the dominance of the traditional American view that only certain groups among the poor deserve welfare. But it is clear that the idea that economic status alone should determine eligibility for aid flickered only briefly and guttered out.

— II —

The next two questions must be addressed concurrently.

3. *What obligations do the recipients of assistance owe to society?*
4. *Can large-scale work requirements be made to work? In other words, can they be made to do more than harass?*

Welfare recipients have rarely been given cash under neutral conditions. The workhouse was an early accompaniment of aid. More recently, the strings have included stigmatizing application procedures and the ministrations of social workers.

If poverty is believed to be the resultant of forces exogenous to the poor, then the attachment of unpleasant conditions to assistance is a gratuitous cruelty inflicted upon the already victimized. Indeed, this conception of poverty suggests that welfare should be regarded as a right — as a form of just compensation for a kind of casualty loss, the accident of poverty. This view, or something very much like it, lay behind the drive that began in the mid-1960s, and reached its apotheosis in the early 1970s, to deliver welfare payments in dignified settings, with rights of appeal and the assurance of due process, and without any coercion or requirements that the recipients of aid do anything in return for it.

There were at least three elements to this movement.

One was the simple insistence that normal legal procedures be followed and constitutional safeguards observed. A second was the effort to save applicants from being stigmatized by the processes of welfare and thereby compelled either to forego benefits to which they were entitled or suffer degradation in getting them. A third was the belief that the poor have a more or less unconditional right to cash assistance. Sometimes this right was asserted without qualification. On other occasions, it was acknowledged that conditions might be imposed, but only if they were surrounded with incentives and protections so generous that what began as conditions ended up resembling nothing so much as other rights. It was also suggested that work requirements were simply inoperable in practice.⁵ But these contentions all came to the same thing: Cash should be provided on the basis of economic need and without strings.

This view had a remarkable effect on those served by welfare programs. Take-up rates increased. Procedures in welfare offices improved. But the position that cash assistance should be provided without conditions never appealed much to the general public or to Congress. As the courts prohibited "man-in-the-house" rules and state residency requirements, Congress mandated job-search by AFDC recipients. But for opposition from the Johnson and Nixon administrations, Congress might well have gone further than it did. On its brief journey to political oblivion, President Nixon's Family Assistance Plan became encrusted with conditions and mandatory "services." President Carter's stillborn welfare reform plan was predicated on the behavioral assumption that cash assistance without work requirements would produce unacceptable effects on labor supply and the political assumption that aid without conditions would not pass Congress.

The problem, of course, was how to make a work requirement real. The Carter program was the first to acknowledge that a work requirement without a job guarantee was unworkable. Although there was no precedent for promising to employ large numbers of actual or potential welfare recipients, the Carter administration committed itself to creating more than one million jobs for people who were demonstrably among the least employable members of American society. The logic was impeccable. But there was no credible evidence that the enterprise could be made to work. The administration's promise was never tested, however, because the cost of fulfilling it was so high — close to \$10,000 per job per year, for an annual total of \$10 billion — that Congress would have none of it.

Advocates of noncategorical cash assistance had reached an intellectual and political *cul de sac*. In an effort to gain acceptance of this approach to welfare, they had tried to persuade a skeptical public that poverty was visited upon the poor and that a change in the environment would drastically reduce it. Pending such a change, they argued, cash assistance should be provided without conditions and without regard for family status, on the basis of measurable economic need. This assistance would not reduce work effort enough to matter. The provision of aid was no more than a compassionate stopgap to tide the poor over until more

fundamental improvements took effect.

But that argument did not take, and the facts did not support it. The behavioral effects of cash assistance were certainly not overwhelming, but they were large enough to matter. As a consequence, supporters of non-categorical cash assistance were forced to accept the proposition that conditions should be placed on the provision of assistance. Recipients of aid would have to accept jobs, if jobs were available.

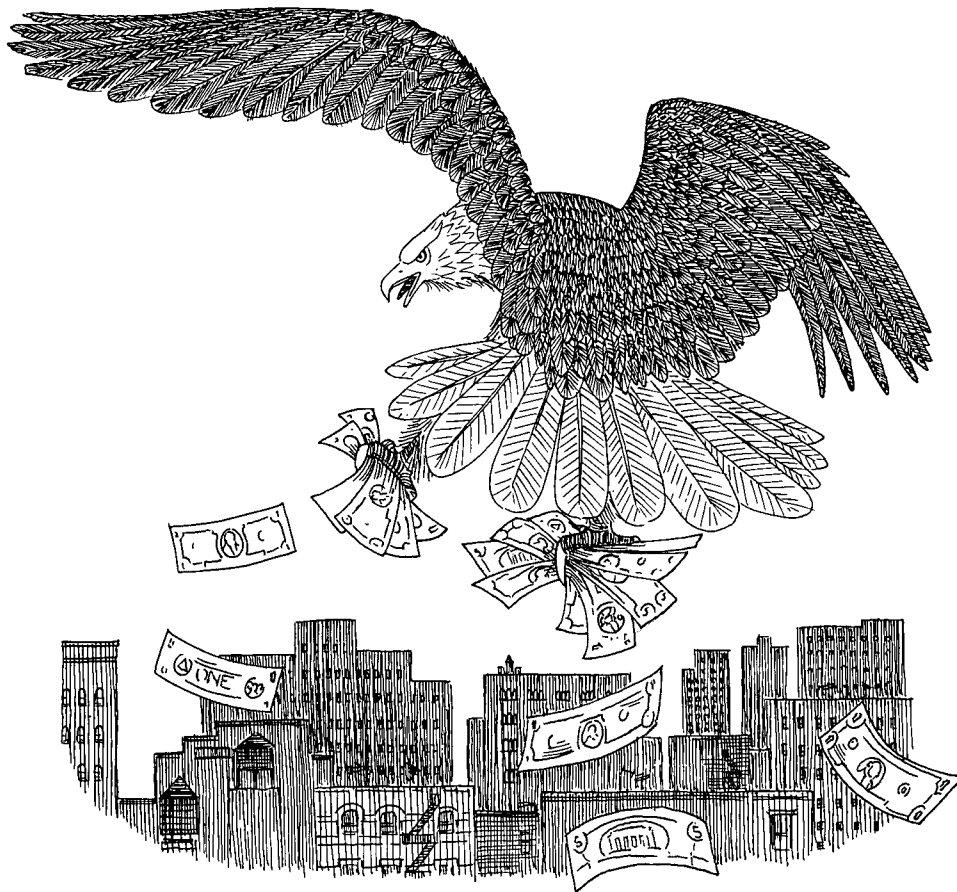
The acknowledgement of the need for a work requirement created an insoluble dilemma, however. With a sufficiently coercive administrative system, potential welfare recipients could be required to accept existing low-quality, low-wage jobs in the private sector. If enough private sector jobs did not exist, public sector positions could be created at low cost. If a work requirement discouraged enough people from applying for welfare, costs might even be reduced. But the coercion that would be necessary to make such a requirement work violated notions of fairness and rights. Alternatively, the public sector could create jobs with sufficiently attractive working conditions and wages to reduce greatly the need for coercion. But the size of the program would be unprecedented, and its cost would be prohibitive, particularly since many workers in unattractive private sector jobs would find it expedient to switch to superior public sector jobs. Trapped on this political Moebius strip, welfare reform went nowhere.

— III —

5. *To what extent is the rising incidence of single-parent families traceable to increased assistance?*

The number of families consisting of a woman and her children rose from 4.1 million in 1960 to 6.7 million in 1982. The proportion of the poor residing in such families increased from 10.3 percent in 1960 to 19.5 percent in 1982. Only part of this trend can be explained by the coming of age of the baby boom generation. Another part, no doubt, is attributable to changes in sexual and social norms affecting the entire population. But the upturn in these statistics resembles the slowdown in economic growth since 1974, in the sense that there are many explanations of the phenomenon no one of which is wholly satisfactory, but few of which can be dismissed.

Among those that cannot be dismissed is the welfare explanation. Welfare, it is argued, contributes to the increase in the numbers of unmarried mothers in various ways. Girls with few economic or social prospects can achieve a measure of independence by having a child or, in some jurisdictions, simply by becoming pregnant, thereby qualifying in their own right for welfare payments. Welfare, it is alleged, not only discourages women from working (a claim to which the income maintenance experiments lend some support), but also discourages them from marrying (because married couples are generally ineligible for assistance). The same line of argument suggests that welfare encourages the breakup of two-parent families when unemployed



Robert Wiser

ment occurs; by leaving a woman and her children, a man makes them eligible for cash assistance and, in most places, for health benefits as well. David Ellwood and Lawrence Summers have pointed out that the proportion of single-parent families kept increasing long after the number of people on welfare stopped growing and real benefits per person declined.

Whatever the effects of a categorical program like AFDC may have been, it was hoped and claimed that noncategorical assistance would reduce family instability. It would make payments to couples as well as single parents, so that the presence or absence of an unemployed spouse would not affect eligibility. Even under a negative income tax, however, there would still be incentives for a spouse eligible for unemployment insurance or with opportunities for sporadic market income to leave the family. Moreover, uncategorical assistance would do nothing to discourage young girls from seeking financial independence through pregnancy.

It was on this set of issues — the effects of cash assistance on family stability — that the income maintenance experiments dealt the campaign for noncategorical aid a second major blow.⁶ According to the final report of the Seattle-Denver experiment, for example, the provision of unconditional cash assistance increased the rates of family dissolution by 53 percent for whites, 57 percent for blacks, and one percent for Chicanos.⁷ This finding received some attention when it was released and further cemented opposition to noncategorical assistance.

There are grave doubts about its validity, however. For families that included children and that received cash assistance only, the rates of family dissolution ap-

pear to have dropped by 16 percent for whites, 4 percent for blacks, and 26 percent for Chicanos. This bizarre contrast seems to have stemmed from a sharp increase in family dissolution among childless couples and among families, with or without children, who received job counseling or education subsidies in addition to cash assistance.⁸

However this analytical debate is eventually resolved, the hypothesis that noncategorical welfare would increase family stability remains unsupported by empirical research. The contrary hypothesis has received official, if premature, support. Attention has shifted to measures designed to ensure that absent fathers shoulder financial responsibility for their offspring and their partners.

— IV —

6. What reliance should be placed on in-kind assistance?

Despite the attention lavished on attempts to reform the cash welfare system, only one lasting legislative change was made. The state-run programs of aid to the aged, blind, and disabled were consolidated into a single program: Supplemental Security Income.

However admirable this reform may have been, it was overshadowed by the transformation of in-kind assistance, much of which went to the poor. Medicare and medicaid vastly expanded the access of the aged, disabled, and poor to hospital and physician services. The number of publicly subsidized housing units increased by more than 100,000 units per year in the late 1960s and rapidly throughout much of the 1970s. The

food stamp program was transformed from a small outgrowth of commodity distribution into the broadest federal program of economic assistance to the poor. Other initiatives — such as Head Start, nutrition support for women, infants, and children, and the earned income tax credit — took root and grew. The American people, it appeared, were prepared to provide much more assistance to the poor in the form of identifiable commodities than they would dream of making available in cash. And they were willing to do so without troubling themselves or their representatives about the possible effects of such munificence on labor supply or family stability.

Logic suggests that these programs should have the same types of effects on economic behavior that cash assistance has. Yet almost no one has tried to determine whether this is the case — even though the total amount of aid provided through in-kind programs dwarfs income-tested cash assistance. The mystery of why such an inquiry has not been made is heightened by the fact that social experiments to measure the effects of housing assistance and health insurance were begun at roughly the same time as the income maintenance experiments. The first set of these social experiments looked at the effects of housing assistance on housing expenditures and housing status, and the second set considered the impact of health insurance on health expenditures and health status, but neither examined the consequences of housing or health assistance for labor supply or family stability.⁹

The rapid growth of in-kind assistance and the sluggish growth of cash assistance contrast starkly with the proofs, well known to every survivor of at least two years of economics instruction, that the former is less valuable to recipients than the latter. On the basis of such proofs, economists have tried to persuade others that in-kind assistance is wasteful and that it should be converted to cash.

The unpersuasiveness of these arguments to everyone except economists is breathtaking. Politicians have long appreciated that support for aid to the poor increases if the aid appears to create jobs for the nonpoor — in the construction trades, for example, or on farms. For many years, the food stamp program has been bundled with agricultural programs to enable a coalition of rural and urban members of Congress to pass programs and approve expenditures that might be defeated if they were voted on separately.

“Politicians have long appreciated that support for aid to the poor increases if the aid appears to create jobs for the nonpoor. . . .”

The American public has declared unmistakably that it is willing to provide to those in need of aid such commodities as basic housing, food, and health care, but it is unwilling to give poor people the cash to buy these items themselves. This attitude has persisted long enough to be taken as a constant on the welfare scene. Future efforts to modify the welfare system should treat it as a reality, rather than try to explain why it does not make sense.¹⁰

— V —

Ten years of weak economic growth and four years of tight budgets have shown that an ebbing tide lowers all ships (with the notable exception of military ships). Welfare programs of all kinds, along with other types of domestic spending, have been scaled back. The first cuts in cash assistance were passive, as the inflation of the 1970s eroded the value of fixed AFDC payments. States steadily tightened medicaid rules and eligibility in an effort to prevent increases in medical costs from showing up in state budgets. These reductions were offset in part by the growth of the food stamp program and the continued expansion of housing subsidies.

The election of Ronald Reagan brought general cuts in most cash and in-kind assistance programs. New AFDC rules rendered some recipients with low earnings ineligible for further aid. Food stamp benefits were lowered, and the implicit tax was increased. New subsidized housing starts were drastically curtailed. States were encouraged to apply for authority to administer experimental workfare programs.

Taken together, these measures reversed the direction in which welfare reformers in the Nixon, Ford, and Carter administrations had tried to go. Categorical distinctions were strengthened, rather than weakened. Benefit reduction rates were increased, rather than lowered. Workfare programs were promoted, rather than discouraged. And, perhaps most importantly, the traditional attitude that the welfare system is a seedbed of sloth and dependency reclaimed dominance from the upstart view that welfare is a right of the poor.

Probably the most significant explanation for these shifts of policies and attitudes is the difficulty of sustaining redistributive transfers when taxpayers themselves are living through hard times. But it is important to realize that the welfare reformers of the Johnson, Nixon, Ford, and Carter years were intellectually disarmed by the very experiments that they had initiated to prove the benignity of noncategorical assistance. Extrapolations of results from these experiments suggested that subjecting recipients to 100 percent tax rates would not seriously damage overall work incentives. The argument that making assistance noncategorical would improve family stability could no longer be made.

In short, the welfare reformer's ship is intellectually adrift in harsh economic weather. The climate is unlikely to improve unless and until economic growth resumes and the chronic budget deficits created by the 1981 tax cut are ended.

Even when conditions do improve, the prospects are dim for a resurgence of calls for noncategorical assistance. The intellectual predicate for that kind of reform

has collapsed. An argument — or, more precisely, an appeal to compassion — can be made for raising the benefits paid by the least generous states. A case can also be made for linking cash to work or to training and education — although evidence is accumulating that training and jobs programs are rarely as beneficial as their proponents claim. A change in social attitudes toward poverty and the poor may occur with a change in the economic climate. But it is clear that the next generation of social policy-makers, unlike the last, will not have the luxury of relying on ideas from an inherited, unfinished agenda.

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or to Congress.”*

1. I recall a debate in the mid-1960s during which Milton Friedman and James Tobin were allied in defending the negative income tax against two critics, one of the right and one of the left. At one point, Friedman noted the irony that he and Tobin were paired and commented that “disciplinary blood is thicker than ideological water.”

2. Real AFDC benefits have declined steadily since 1974 because payments have not been adjusted to offset fully the effects of inflation. Richard A. Kasten and John E. Todd, “Transfer Recipients and the Poor During the 1970s,” 1980, photocopied.

3. Robert A. Levine wrote: “Most proponents of the negative income tax believed, in the early days, that the greatest political problem that would arise in attempting to legislate an actual program would be the belief, among the public and in Congress, that any form of income maintenance for adult males would bring about a large increase in idleness among those who otherwise would have worked. The whole thrust of the negative income tax, of course, was precisely to avoid this outcome — to provide such men with financial incentives to work. But the advocates felt that, without evidence to the contrary, the conventional perception would prevail.” “How and Why the Experiment Came About,” in *Work Incentives and Income Guarantees: The New Jersey Negative Income Tax Experiment*, Joseph A. Pechman and P. Michael Timpane, editors, Brookings, 1975, pp. 16–17.

4. For a survey of the results of all four of the income maintenance experiments, see *Final Report of the Seattle-Denver Income Maintenance Experiment, Volume 1, Design and Results*, SRI International, May 1983. For a review of the results regarding labor supply, see part III, “Labor Supply Response,” pp. 91–198. The estimates of the proportion of extra costs required to replace lost earnings were based on benefits payable under President Carter’s Program for Better Jobs and Income and are reported in Henry J. Aaron and John Todd, “The Use of Income Maintenance Experiment Findings in Public Policy, 1977–78,” *Industrial Relations Research Association Proceedings*, 1979, pp. 46–56.

5. “... [I]f work does not pay, a work requirement in most places and times would be ineffectual and inoperative, a costly and largely futile effort to compel the poor to behave in ways contrary to their own self-interest. It is unimaginable that a large bureaucracy would be capable of sifting millions of individual cases, each fraught with special problems, needs,

and ambiguity, all requiring judgment if not wisdom. To inspire hard work is a laudable goal, but one not likely to be achieved through a work requirement without more authoritarian administration than most Americans are likely to accept.” Henry J. Aaron, *Why is Welfare So Hard to Reform?* Brookings, 1972, pp. 49–50.

6. The first was the finding, noted above, that a sizeable proportion of the increased cost of noncategorical aid provided without an effective work requirement would go to replace reduced earnings.

7. *Final Report*, p. 291

8. These statistics are taken from an unpublished memorandum, dated September 2, 1981, by Glen Cain, who chaired a panel appointed by the Department of Health and Human Services to review the *Final Report*. Cain and his committee urged that the importance of the interaction between cash assistance and counselling be mentioned prominently in the *Final Report*. He maintained that this anomaly, as well as a number of others, made unjustifiable any firm statements about the effects of cash assistance itself on family stability. Among the other anomalies he cited were gross discrepancies in response across ethnic groups and the fact that increases in cash assistance seemed to reduce family dissolution.

The drafters of the *Final Report* ignored the entreaties of the Cain committee, and the Office of Planning and Evaluation, which sponsored the income maintenance experiments — on which more than \$70 million was spent — refused to support further research on the effects of counselling and education subsidies.

9. In the course of the income maintenance experiments, a small amount of effort was spent examining the effects of cash assistance on health and housing; some modest impacts were found.

10. In fact, a strong analytical case can be made that assistance in kind, rather than in cash, is socially optimal, even if it is not favored by recipients. This argument proceeds from the assumption that taxpayers care how welfare recipients spend the assistance they are given; it does not deal with what may be the most important reason for the relative popularity of in-kind programs: logrolling.

Manpower Policies for the Disadvantaged: What Works?

Gary Burtless

WHEN AMERICA rediscovered its poor in the early 1960s, many policy-makers and academics viewed poverty as an essentially curable condition. They believed that people were poor for a variety of reasons, but that for each of these there existed a practical countermeasure. Enlightened and resolute social policies—including manpower policies—could eliminate the underlying sources of poverty.

An eloquent statement of this view can be found in the 1964 *Economic Report of the President*, written at the outset of the war on poverty. The 1964 *Economic Report* outlined a ten-point strategy to eradicate poverty, including an acceleration of economic growth, an end to racial discrimination, a more efficient labor market, an expansion of educational opportunity, additional job counseling and training for teenagers and poor adults, investments in the nation's health care system, and financial help for the aged and disabled. It may surprise present-day readers to learn that President Johnson and his economic advisers did not advocate cash aid to the nonaged, nondisabled poor. The 1964 *Report* noted that it would cost only \$11 billion—less than 2 percent of GNP—to wipe out poverty using cash transfers. But this tactic was rejected: "Americans want to *earn* the American standard of living by their own efforts and contributions. It would be far better, even if more difficult, to equip and to permit the poor of the Nation to produce and to earn the additional \$11 billion. . . ."

The war on poverty marked the real beginning of federal manpower policies designed to aid economically disadvantaged workers. Earlier manpower efforts had focused on alleviating skill shortages and helping workers who had been displaced by automation and structural change. These efforts were modest in scope and aimed primarily at experienced workers. Starting in 1964, the emphasis shifted; manpower initiatives became increasingly targeted on minorities, welfare recipients, and low-income youth. Programs have been funded under a long series of legislative acts and amendments, including the Manpower Development and Training Act (1962), the Economic Opportunity Act (1964), the Comprehensive Employment and Training Act (1973), and the Job Training Partnership Act (1982). Measured in constant 1983 dollars, annual spending on these programs rose from around \$3 billion in the late 1960s to a peak of around \$14 billion in the late 1970s. Since then, spending has declined to around \$4 billion, and it is slated to fall even further in the next several years.

Federal manpower programs for the disadvantaged have used a variety of techniques intended to enable workers to earn their way out of poverty: classroom and other institutional training for specific occupations; more comprehensive instruction in basic skills; on-the-job training; targeted wage

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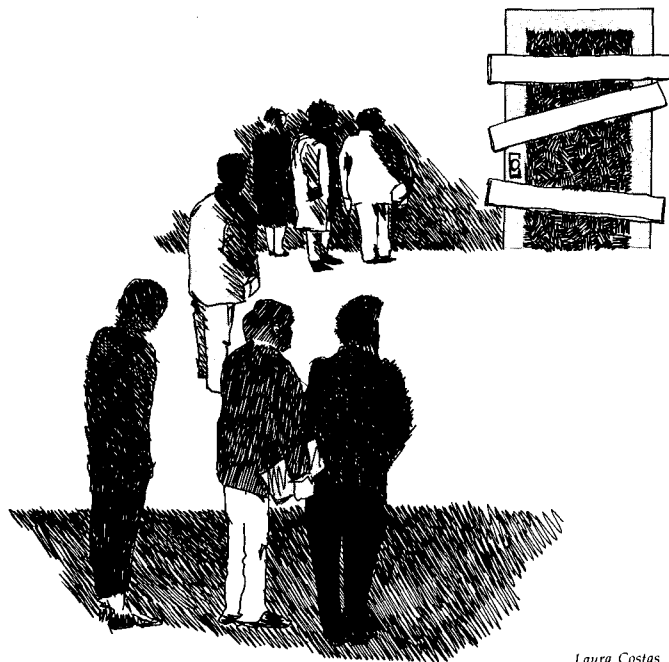
subsidies, meant to encourage employers to hire and train low-income job applicants; work experience and public service employment programs; and the development of job search capabilities. We have now had lengthy experience with these techniques. What seems to work best?

Classroom Training. Classroom instruction is the approach that comes to mind when most of us think of how to improve the job prospects of the poor. Disadvantaged workers are clearly lacking something vital to success, and it is often assumed that proper training can supply what is missing. The guiding tenet of training administrators everywhere is: "Give a man a fish and you will feed him for a day, but teach a man to fish and you will feed him for a lifetime." This maxim assumes that each man can be taught to fish — and that, once learned, fishing will prove to be a useful occupation. The alert trainee might reasonably ask, "Where's the fish?"

In theory, classroom training is given in occupations in which job opportunities for trainees are expected to be plentiful. In practice, however, job market predictions are imperfect, and it frequently turns out that trainees cannot find work in the occupations for which they were trained. Sometimes there are no jobs; sometimes the trainees cannot perform them. It is much easier to deplore this situation than to propose a workable remedy for it. Manpower agencies are constrained in their efforts by limited funding and by the resources of local training institutions. The people they serve are often extremely disadvantaged.

Has classroom training worked? The consensus of recent studies is that classroom training has significantly raised earnings among certain participants, particularly women and new entrants or reentrants to the labor market who have little recent work experience. It has worked less well or not at all for other groups, particularly men who have held steady but low-paying jobs. The main effect of classroom training is to raise the proportion of time that participants spend working. There is often only a small or negligible impact on the wage rate a participant can hope to earn. Classroom training thus appears to reduce spells of unemployment between jobs but not to change the type of job that participants hold. The precise amount of earnings improvement is a topic of debate. An analysis by the Congressional Budget Office and the National Commission on Employment Policy found that the earnings of female participants in classroom training programs increased by an average of \$800 to \$1,400 per year (in 1980 dollars), while those of male participants rose by only \$300.¹

These estimates, as well as previous ones, are subject to serious qualification. The ideal measure of a program's effect would be obtained by comparing the earnings of participants with what their earnings would have been in its absence. Since this is not feasible, analysts have used less reliable procedures. The usual method is to compare earnings trends in the participant group with trends in another group thought to be comparable. However, because the comparability of the two groups can never be established beyond a reasonable doubt, findings based on this technique are always sub-



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ject to challenge. Analysts using different comparison groups often obtain markedly different results. Thus, some researchers have found that training programs reduce subsequent earnings, while others who have studied the same programs have reached just the opposite conclusion. It is unrealistic to expect that policymakers or the public can resolve the methodological disputes that divide statisticians and economists.

One way of reducing our uncertainty is to perform a controlled experiment. Under this strategy, a randomly selected group of disadvantaged workers is offered access to a manpower program. The subsequent earnings of these trainees are then compared to the earnings of an identically selected control group, which is not offered the service. Because the two groups are selected using identical criteria, the earnings difference between the groups is a reliable measure of the program's impact. Although the nation has spent over \$100 billion (in constant 1983 dollars) on manpower programs and the value of these programs is hotly debated, the government has only rarely used controlled randomized trials to test the effectiveness of alternative programs.

One experimental test of institutional training was carried out in Seattle and Denver as part of a larger investigation of the consequences of a negative income tax. Most manpower training agencies assign clients to particular courses of study after deciding what type of training is appropriate for each trainee. The training voucher program tested in Seattle and Denver was less paternalistic; it permitted selected low-income enrollees to attend training programs of their choice and offered to pay half or all of their associated expenses, including the costs of tuition, books, transportation, and child care. (The fraction of expenses paid by the experiment depended on the plan to which a family was randomly assigned.) Participation in a highly structured job counseling process was mandatory for those who elected to use the training vouchers. The experiment included a control group, the members of which were not offered training vouchers.

"Although training vouchers were used by about 30 percent of the family heads eligible for them . . . the additional training did not lead to an increase in post-program earnings."

The results of the experiment are extremely disappointing. Although training vouchers were used by about 30 percent of the family heads eligible for them and led some participants to take as many as three extra quarters of formal schooling, the additional training did not lead to an increase in post-program earnings. Participants experienced significant declines in earnings during their training periods, presumably because they reduced their work hours temporarily in order to take advantage of the instruction. The failure of their earnings to rise after the completion of training suggests that the instruction that they received may not have been worthwhile. Alternatively, some participants may have harmed their chances of obtaining employment or higher wages by missing out on valuable work experience during the months of training.

These findings are especially disquieting because they were obtained in a controlled experimental trial and hence are presumably reliable, and because they suggest that additional formal schooling is not by itself beneficial. However, the results are not directly applicable to many institutional training programs. Seattle-Denver enrollees were offered a degree of freedom in selecting courses of study that is not common in federal manpower programs. In addition, the counseling provided to the trainees might have been worse than the norm — although except for the unexpected outcome, there is no evidence of that. The study suggests that clients of manpower programs, left to their own devices, may not select optimal training courses. More

generally, it casts doubt on the utility of unrestricted classroom training for adult disadvantaged workers.

Comprehensive Training. The Job Corps represents an ambitious alternative to simple classroom training; it was designed to accomplish much more than simply remedy deficiencies of training. The program was established in 1964 under the Economic Opportunity Act and offers a comprehensive set of health, basic education, and vocational services to low-income youth. In contrast to other training efforts, it is essentially a boarding school aimed at removing young people from the supposedly undesirable influences of economically deprived neighborhoods. Careful studies of the program have usually concluded that its estimated benefits, in higher wages and lower crime, outweigh its costs. The Job Corps is very expensive, however. According to estimates in the 1984 U.S. budget, the cost of providing one year of service to a Corps member is above \$14,000²—more than three times the cost of other types of training. But the comparative success of the Job Corps implies that expensive efforts may be required to offset the effects of a lifetime of disadvantage.

On-the-job Training. On-the-job training is another alternative to classroom training. Under this arrangement, private employers give entry-level positions to disadvantaged workers and in return receive subsidies covering a fraction of the wages paid to the trainees. The subsidy reimburses employers for the presumed extra costs of training disadvantaged workers. On-the-job training is more likely than classroom instruction to provide experience in occupations in which job openings exist. Indeed, many firms that offer on-the-job training provide permanent employment to participants at the end of their subsidized training.

During the late 1960s and 1970s, manpower officials believed that the payoff from on-the-job training was substantially higher than from classroom training. This view was reinforced by the fact that a larger fraction of on-the-job trainees ended up with permanent jobs. However, because of the reluctance of employers to hire disadvantaged workers, manpower agencies usually found it hard to locate enough suitable training positions, especially when the economy turned sour. Agencies had many more clients than positions in which to place them. Classroom training positions, by contrast, were reasonably easy to arrange.

The Congressional Budget Office study mentioned above casts doubt on the presumed superiority of on-the-job training to classroom training. The CBO found that on-the-job trainees were less disadvantaged than those who received classroom training. Their post-program earnings were higher than those of other trainees because they were more employable to begin with; in fact, many were probably assigned to on-the-job training positions rather than classroom programs precisely for that reason. This does not imply that on-the-job training has little value, though it does suggest that such training will be useful in only a minority of cases.

Wage Subsidies. A targeted wage subsidy is simply an offer by the government to pay employers part or all of the wage costs of hiring disadvantaged workers. It differs from on-the-job training in one respect: To qualify for the subsidy, employers are not required to pro-

vide training; they need only to provide jobs. Usually subsidies are limited in their duration, most often to one or two years. Several wage subsidy programs have been enacted, the most recent of which, the Targeted Jobs Tax Credit, offers companies tax credits on wages paid to certain classes of hard-to-employ workers, including welfare recipients and poor youths.

Employer participation in these programs, as in on-the-job training programs, has always been low. In fact, the number of workers whose wages are subsidized by the programs is far below the number of workers who are technically eligible to be covered. During the first two years of the Targeted Jobs credit program, fewer than 115,000 youths held subsidized jobs. Yet it is estimated that 2 million jobs per year are held by youths who are within the population that the Targeted Jobs provision is intended to benefit. Employers appear to be passing up opportunities to collect tax credits for employment decisions they are making anyway.

Policy-makers have speculated about why employers fail to take advantage of subsidy programs. One theory is that firms are ignorant of the advantages of such programs. Another is that employers are deterred from participating by their disinclination to take on an additional paperwork burden or by their fear of tax audits.

A recent wage subsidy experiment suggests a different explanation, however. A Dayton, Ohio, manpower agency was given responsibility for helping able-bodied welfare recipients find jobs. The agency randomly divided clients into three groups. Members of the first group were given tax credit vouchers that identified them to potential employers as being eligible for the Targeted Jobs Tax Credit. Those in the second group were given vouchers informing potential employers that the voucher holders were covered by a generous *cash* subsidy program. The value of the subsidy was set at a level identical to that of the tax credit—up to \$4,500 over two years—but quarterly payments were made to employers directly rather than through the income tax system. Clients in the third group were given no vouchers and no information about the possibility of a wage subsidy. The recipients of vouchers were strongly encouraged to show them to prospective employers.

Only a small fraction of the vouchered clients succeeded in obtaining employment, and of those only a quarter worked for firms that bothered to apply for a tax credit or cash subsidy. But far more surprising was the finding that unvouchered job seekers were more successful in securing work than were applicants in the two vouchered groups. Twenty-one percent of the unvouchered clients, but only 13 percent of the vouchered ones, found jobs by the end of the five- to eight-week search period. A voucher apparently hurt, rather than helped, a job seeker's chances of employment because it identified the voucher holder as a member of an economically and socially disadvantaged group. The stigma arising from this identification is evidently a major handicap in job finding.

Work Experience as Training. If it is difficult to find work or training positions for disadvantaged workers in private firms, manpower officials have often found it much easier to place clients in government agencies and nonprofit institutions. The programs through which

this is done are of two kinds—work experience and public service employment—but their similarities are more important than their differences. In both, public or nonprofit employers create jobs for disadvantaged workers; manpower agencies then refer—and pay the wages of—clients to fill these positions. Wages are essentially subsidized at a 100-percent rate, a major reason why public and nonprofit employers find disadvantaged workers more attractive than do private employers.

The experience that clients receive in these programs is assumed to improve their employability, even if it trains them for only the most menial occupations. Time spent in the workplace may give new entrants and re-entrants to the labor market a clearer idea of what is expected on a job, and it may serve as a useful credential for later finding work.

The evidence is mixed regarding the impacts that work experience and public service employment efforts have on the subsequent earnings of participants. The Department of Labor (DOL) found that work experience programs actually reduce participants' subsequent earnings, while the CBO study cited above concluded that for female enrollees these programs raise earnings as much as classroom training does. As to public service employment projects, DOL analyses indicate that they are somewhat less effective than classroom training, and much less effective than on-the-job training, in

"Employers appear to be passing up opportunities to collect tax credits for employment decisions they are making anyway."

raising earnings. None of these findings was obtained using strictly experimental data; consequently, for the reasons discussed above, they should be viewed as suggestive, but not definitive. This explains the large discrepancies in the findings regarding the relative effectiveness of different training strategies.

The Supported Work Demonstration, conducted by the Manpower Development Research Corporation, tested the impact on especially disadvantaged workers of a carefully structured program of work experience. Only one of the four target groups involved in the study—welfare mothers—was found to have increased its earnings as a result of the program. The other three groups—high school dropouts, ex-convicts, and former drug addicts—showed either no earnings gains or slight losses. The Supported Work Demonstration was much better conceived and run than such programs typically are. Its failure to raise earnings for three out of four target groups suggests that work experience can aid only a subset of disadvantaged workers.

It may be unfair to judge work experience and public service employment programs by the criteria we apply to pure training programs, since they have objectives in addition to training. The Summer Youth Employment Program, for example, is primarily aimed at keeping city streets safe in the summer. (Its effectiveness on this score is unknown.) Public service employment is often justified as a mechanism to give jobs to the deserving needy when times are tough. If those who are placed in public jobs perform useful work and if their wages or stipends accurately reflect the value of that work, the true cost of helping the disadvantaged through this mechanism is small. But critics maintain that the tasks performed in work experience and public service projects have little value, which implies that the wages paid to job holders are merely a disguised form of income transfer. If this view is correct, these programs should be judged by their success as transfer programs and as efforts to equip workers for later competition in the unsubsidized job market. As transfer programs they may be perfectly serviceable, but as training programs they are frequently ineffective.

Job Search Training. A fairly new element in manpower programs for the disadvantaged is systematic training in job search techniques. Clients are encouraged to follow a rigorous and structured routine in looking for employment. Often the course includes an important element of motivation building and peer reinforcement. The idea is to motivate people to look for

jobs for which they are already prepared rather than to train them for new jobs. Clients are not taught to fish, but to find existing jobs in the fishing industry. Obviously, this approach is far less expensive than the alternatives discussed above. There is evidence that it is modestly successful in helping clients find work earlier than they otherwise would. Workers' earnings are raised because they spend more time employed. If this approach were successful in the long run, it would improve the efficiency of the job market by speeding up the match between disadvantaged job seekers and available positions.

This limited degree of success would probably not satisfy the architects of the war on poverty. Many of the jobs that workers find are low-wage, dead-end situations that do not offer a way out of poverty, even if they do provide full-time, year-round employment. We should recall, however, that nearly *all* manpower strategies for the disadvantaged, including those that are far more expensive than job search training, share the same characteristic; they raise the amount of time that workers spend employed, but have little effect on their hourly wage rates. These gains in employment are valuable, however, and should not be lightly dismissed. They are simply too small to have a major effect on the poverty rate.

The Role of Manpower Policy. Manpower programs have delivered less than their proponents hoped, but more than their detractors acknowledge. They have not eliminated, or even substantially reduced, poverty among the working age population, but they have made a modest difference in the lives of many who participated in them. Our faith in manpower programs would be improved if policy-makers, analysts, and the public at large developed a more realistic view of what these initiatives can accomplish. Proper training can occasionally turn a welfare mother into a computer technician. (In fact, some welfare mothers will become computer technicians without any government aid.) But there is no magic training course that can guarantee *every* welfare mother self-sufficiency in a well-paid job. Where there are few jobs or a genuine incapacity to learn, a manpower program can accomplish little. Its main value may then be social, rather than economic; it offers evidence that society is at least trying to help those who seek to help themselves.

Manpower training programs for teenagers and adults can play a role, though a limited one, in reducing poverty. If past experience is a reliable guide, however, the impact on earnings will be small and in many cases expensive to obtain. Substantial poverty will remain among able-bodied adults with children. This residual poverty can be eliminated only if society is willing to change the distribution of economic rewards, either in the labor market or by reform of the tax and transfer system.

"Manpower programs have delivered less than their proponents hoped, but more than their detractors acknowledge."

1. Congressional Budget Office, *CETA Training Programs: Do They Work for Adults?*, Washington, D.C., 1982, p. 19.

2. The actual cost per enrollee is lower than this because many Job Corps participants drop out of the program before completing a full year.

An Antidote for Protectionism

Malcolm R. Lovell, Jr.

THE UNITED STATES is facing the most fiercely competitive international business climate in the postwar period. While no nation has greater potential to thrive in this environment, in industry after industry we appear to be succumbing to the sirens of protectionism. This is a mistake not only in economic terms, but in human terms. The safeguarding of some jobs costs us others — including those that could have been created in the absence of protectionism. Even the ostensibly protected positions remain in jeopardy, because their continuation requires that the public be willing to incur higher prices and to suffer job losses elsewhere in the economy.

Microeconomic manpower policies, designed to reduce the burdens of transition for workers adversely affected by changing market forces, would be substantially more cost-effective, more positive in their impact on employment, and arguably more humane than the protracted protection of uncompetitive industries. Yet, for reasons to be explored below, this alternative has by and large been shunned.

The United States has taken only the most tentative steps toward creating an effective displaced worker program. While we have accepted the costs of \$5 to \$8 billion a year associated with Japan's "voluntary" auto quotas, we have allocated only \$200 million to Title III of the Job Training Partnership Act, the nation's chief manpower policy response in recent years to worker displacement. We need to have a comprehensive public and private effort *in place* to address the training, job search, and income support needs of people dislocated by the vicissitudes of competition. Until we do, it will be increasingly difficult to argue that the nation can abjure protectionism and still be responsive to the human concerns of displaced workers.

The administration and Congress should work together now to establish a full-fledged displaced worker program. Such a program would further our commitment to being at once a competitive and a compassionate society, one that recognizes the need for both higher productivity and the socialization of the burdens of change. This paper will propose, for review and debate, a set of initiatives designed to serve these ends.

Skepticism

One of the most significant obstacles to the building of an effective program to aid displaced workers has been an abiding skepticism about the effectiveness of targeted manpower policies. We have been persuaded not only that past efforts were unsuccessful, but that future efforts are doomed to failure as well. In fact, many of the programs typically cited — the Comprehensive

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"Major public efforts are needed to supplement private-sector programs, and to socialize the costs of change, when the rigors of competition make it impossible for an individual industry — such as apparel or autos or steel — to provide jobs for as many workers in the future as it has in the past."

a source of some encouragement, in that it reflects a recognition of the problems of displaced workers. Unfortunately, it is more an acknowledgement of these difficulties than a remedy of them. Since it is part of the same legislation as the replacement for CETA — Title II of the Act — there is at least some risk that it will draw funding away from activities intended to serve the disadvantaged.

Perhaps the most important public assistance to displaced workers comes from and through the unemployment insurance system, which has made benefits available to most such workers for periods ranging up to 52 weeks in recessionary periods. There is evidence that in some instances this program is counterproductive, discouraging acceptance of new employment until benefits are exhausted. It is also the case that most states still refuse to provide benefits to unemployed people engaged in training that has not been "approved," a policy that is hardly conducive to the upgrading of skills.

Some of the skepticism about manpower policies is grounded in studies made of the manpower training programs of the 1960s and of the CETA experience in the 1970s — studies that cast some doubt on the impact of training on employment. Even if these studies are taken as gospel — and, for methodological reasons, they should not be — we should remember that they pertain to certain types of training for certain categories of workers; it is neither sensible nor responsible to reason from their findings to a conclusion about the efficacy of training in general. And we should recall that our entire educational system is testimony to our faith in the value — financial as well as intellectual — in the acquisition of knowledge and the development of skills.

The Role of the Private Sector

Another impediment to the emergence of an effective program for displaced workers is the belief held by many that training is and ought to be the province of the private sector. No one can seriously question the proposition that the efforts of business have been of central importance in the education and development of the American work force. The American Society for Training and Development estimates that corporations spend \$20 billion a year on in-house training, and it is clear that more and more firms are recognizing that it is not in their long-term interest to treat direct labor as a short-term variable cost.

However, even if every company were to adopt hiring, training, and relocation policies designed to maximize the employment security of its workers, these initiatives would not be sufficient to deal with the changes in the nature and supply of labor that are being generated by the ever-shifting patterns of domestic and international competition. For example, it is clear that even with the best of intentions, the apparel industry is not going to be able to meet foreign competition without protection and at the same time maintain its work force at present levels. Major public efforts are needed to supplement private-sector programs, and to socialize the costs of change, when the rigors of competition make it impossible for an individual industry — such as apparel or autos or steel — to provide jobs for as many

Employment and Training Act, for example — were aimed at the disadvantaged, not the displaced; we should not draw from the perceived track records of these initiatives conclusions so broad that they block initiatives aimed at a different population.

To be sure, there have been over the years some programs targeted at displaced workers. The Trade Adjustment Assistance (TAA) Act, for example, was designed to mitigate the impact of trade decisions on employment; labor supported the reduction of trade barriers in exchange for this legislation. TAA has since been judged by many to be inadequate to the task set for it, partly because of its focus on income support rather than the facilitation of job transitions. The Act is a reminder in any case of the willingness of organized labor to support pro-competition measures when questions of employment security are also addressed.

The U.S. Employment Service is often cited as an example of ineffectual manpower programs. The organization has received inadequate support and attention from the federal government and the states — and it has suffered from the neglect. Moreover, the missions it has been given by Congress are internally inconsistent. The performance of the Service can be given only passing grades — at a time when a superior labor exchange effort is badly needed.

Title III of the Job Training Partnership Act (JTPA) is

workers in the future as it has in the past.

The Business Roundtable made just this point in its recent statement on U.S. competitiveness and economic policy. "Both the public and private sectors," the Roundtable said, "share the responsibility for alleviating the severe social and economic costs of worker displacement." The Roundtable's report recommended a strong private-sector effort and a complementary new government program. This commitment from the business community comes at a time when important segments of the labor movement, concerned about employment security for their members, have moved sharply in the direction of protectionism; it is clear that absent an effective program of aid to displaced workers, our ability to be competitive in world markets, and thereby to create new jobs, will continue to be constrained by the desire to safeguard the economic well-being of current workers.

Budgetary Constraints

Not only skepticism about our experience with manpower programs and a preference for private-sector initiatives, but also budgetary concerns, stand in the way of comprehensive help for displaced workers. While the launching of a new manpower program for displaced workers — at a cost of \$3 to \$4 billion — is cheaper in the long run than the continuation and expansion of tariffs and quotas with much higher price tags, there is understandably a great reluctance in both the administration and the Congress to add to federal spending, and the federal deficit, at this time. And, it should be acknowledged, a new manpower program would not automatically eliminate existing trade barriers, but would only provide a rationale for future adjustments.

However, the creation of such a program need not aggravate the budgetary imbalance. The Business Roundtable, which has been at the forefront of those urging that the federal deficit be reduced, suggests consideration of a new payroll tax to provide funds for the displaced worker initiatives it recommends. The concept of a new tax to pay for a new manpower program is consistent with both its fiscal and human resources recommendations.

Lessons Learned

The administration, while expressing some confidence in the potential utility of Title III of the JTPA, has also recommended the provision of financial incentives to employers to hire displaced workers and an expanded conception of unemployment insurance that would encompass purposes in addition to the payment of benefits. The House Wednesday Group is supporting proposed legislation that would permit displaced workers to use Individual Retirement Accounts (IRAs) to finance retraining and that would give tax breaks to employers who enlarge their in-house training programs. However, the fact remains that nobody in either house of Congress has introduced a *comprehensive* bill to deal with the needs of displaced workers in the years and decades to come. In my judgment, we now know enough to develop such a bill — and we should pro-



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ceed to do so without further delay.

We know, for example, that experienced workers frequently lack the labor market information and job search skills vital to finding new jobs; that retraining and counseling need to be based on a careful and individual assessment of each worker's capabilities and interests; and that close linkages with employers and an understanding of their needs are critical to the effectiveness of placement efforts.

We know how to train people in the skills needed for today's jobs and those of the future. Our vocational schools and community colleges have grown exponentially in the past several decades and are currently serving millions of students seeking to improve their competitiveness in the labor market. These institutions work closely with local industries and are responsive to shifting patterns of demand for labor. We know that providing income support without requiring recipients to enroll in training or accept new work can often lead to greater dependency and discouragement. We know that the provision of assistance soon after a worker is unemployed can shorten the time he or she is out of work. We know from our experience under the GI Bill of Rights that if we let individuals select their own courses of training (after having been given adequate

"We have conducted manpower programs at the Federal, state, and local levels since the 1960s and have learned that educating and training people, like building automobiles or missiles, can be done competently or poorly, and that quality control, through effective oversight, is crucial."

The problems of displaced workers and Malcolm Lovell's proposal for dealing with them were discussed at a special National Issues Forum held at the Brookings Institution last December. The gathering was cosponsored by the Advanced Study Program at Brookings and the National Commission for Employment Policy. What follows is a sampling of the comments made at the conference:

Robert E. Lighthizer, Deputy U.S. Trade Representative:

"USTR is concerned about the displacement of workers for a lot of reasons. First, a good deal of human suffering is associated with the problem. Second, the displacements are caused in part by the trade policy with which we are concerned. And third, ill-advised protectionist trade policies can arise if the displaced worker problem goes unattended for a long time. From a trade perspective, we think we need a solution that will help us reduce protectionism, lead to a more open trading system, and facilitate adjustments within the U.S. economy."

John Dunlop, Lamont University Professor at Harvard University and former U.S. Secretary of Labor:

"The labor market problems that this country faces in the 1980s are very serious — more serious than those we have faced in any decade I can identify. I am of the view, along with most of my profession, that an appropriate set of macroeconomic policies would make adjustments in the labor market much easier. But I do not believe that these policies, whatever your preferences about them, would make the problems of displaced workers go away."

Rudolph A. Oswald, Director of Economic Research, American Federation of Labor-Council of Industrial Organizations:

"Displaced workers have in a sense paid part of their dues to our society. They have indicated their desire to work, and they have made contributions to our economy. When they are displaced through no fault of their own, they should get special attention. I think that your proposal is a positive means of addressing their problems."

Alexander Trowbridge, President, National Association of Manufacturers:

"Both organized labor and management are worried about the trend toward higher and higher payroll taxes, and the price tag of this program has to be viewed with that in mind. However, this obstacle isn't necessarily unsurmountable. There are some good concepts in this proposal: individual selection of training programs, comprehensive coverage, and, especially, early intervention. For the program to be effective, there has to be early job assistance, and, if that isn't effective, early retraining."

Patricia W. Hogue, Director, National Commission for Employment Policy:

"The nature of displacement is changing. It's affecting more and more white-collar workers as well as blue-collar ones. And we're seeing the feminization of displacement. These changes may have an impact on whether and how politicians want to act on this problem."

Kenneth McLennan, Vice President and Director of Industrial Studies, Committee for Economic Development:

"I would remind you that in 1983 the appropriation for the Job Training and Partnership Act was something like \$125 million. The really big bucks are in the unemployment insurance system, which spends, depending on the business cycle, \$15 to \$30 billion a year, and in education programs. I think that what we have to do is to develop systems that permit us to use these funds much more flexibly to help displaced workers."

Dennis Carey, Secretary of Labor, State of Delaware:

"Between 1976 and 1981, \$189 billion was spent on extending unemployment insurance beyond the normal compensable period — and of that total only \$53 million, or one half of one percent, went to training, job search, job development, and meaningful relocation assistance. Billions for income maintenance and only pennies for retraining is hardly a wise human capital investment strategy."

information about their options), their choices can be sensitive to the labor market's needs as well their own — and can increase their motivation to succeed. We also know that some people can find work without outside help, but that others will experience prolonged unemployment without support and encouragement.

We know that training and job search assistance are of little value if there are no jobs available. And we know that increases in the number of jobs in the United States have been the envy of the western world — and that, if we follow macroeconomic and free trade policies conducive to a high-growth economy, we can expect these increases to continue. We have conducted manpower programs at the Federal, state, and local levels since the 1960s and have learned that educating and training people, like building automobiles or missiles, can be done competently or poorly, and that quality control, through effective oversight, is crucial. Finally, we have learned — the hard way — that simply throwing money at a problem, without knowing specifically what we wish to achieve, is as apt to exacerbate the problem as to alleviate it.

A Plan

The following proposal incorporates what we have learned and what needs to be done. The program would be triggered early in a spell of unemployment; it would address the need for labor market information and job search assistance; it would provide education and training options, but would not attempt to impose particular courses on enrollees; and it would extend unemployment insurance benefits up to a year when necessary, but for each recipient would condition that extension on a vigorous job search and retraining effort. Finally, it would assign management responsibility to the states, with Federal monitoring to assure compliance.

Eligibility Criteria

Although displaced workers can be defined in terms of how much difficulty they experience in finding new employment, a more useful and less subjective definition is one that distinguishes between these workers and the three other major categories of those seeking work: the disadvantaged, new entrants, and the cyclically unemployed. For purposes of this proposal, therefore, a displaced worker would be defined as a laid-off employee with four years of covered employment — covered, that is, by a state unemployment insurance system — who is certified by his or her former employer as being unlikely to return to work for that company within a six-month period. A worker who had spent at least four years in covered employment would be unlikely to fit in the disadvantaged category and clearly would not be a new entrant. Certification by an employer that the worker was unlikely to return within the next six months would set him or her apart from the majority of the cyclically unemployed.

Thus, the definition set out above, by differentiating among the various groups of unemployed people, would make it possible to concentrate resources on ini-

tiatives designed to help the members of a clearly demarcated target group. It would also permit prompt identification of those entering that group by requiring certification of those laid-off workers unlikely to return to their jobs. Efforts to facilitate reemployment could then be initiated early in a term of unemployment. Rather than waiting for a recall that is unlikely to occur, workers would know just where they stood and would be able to begin their job searches before unemployment insurance benefits were exhausted.

It should be noted that the proffered definition does not deal with either the nature of the industry in which an individual worked or with the reasons why he or she was laid off (save only that the departure from a job be other than voluntary or for just cause). Identification of an industry as “declining” is not only perjorative, but frequently inaccurate. Our experience with the trade adjustment assistance program is ample evidence of the inequities of limiting eligibility for aid to those workers whose redundancy was occasioned by some specific cause. Identification of the workers who qualified for assistance under that program frequently took several years — a delay that prolonged unemployment rather than encouraging reemployment.

The Worker's Decision

Once a laid-off worker had received the required certification from his or her employer, the worker would be offered a choice between joining the new program or proceeding independently to find another job. If the individual decided not to opt into the program, he or she would continue to be eligible for unemployment insurance benefits and for aid and opportunities provided under other statutes or by private plans.

The individual would have four weeks to decide whether or not to participate in the displaced worker plan; if the worker chose not to take part, the assistance afforded by the program would be foreclosed. This provision would encourage early efforts to find new work — and would discourage the postponement of vigorous job search efforts until after the depletion of unemployment insurance benefits.

Program Content

After enrolling, a worker would be required to participate, as a condition of remaining in the program, in a 40 hour a week schedule of job search and training. He or she would also be expected to accept a job offer if it was judged to be suitable, taking into account the experience and skills of the individual and the state of the labor market.

The initial emphasis of the program would be on providing information and counseling to each participant regarding the range of jobs available in his or her SMSA (Standard Metropolitan Statistical Area) and the techniques that have proved to be useful in seeking new employment. In the “Down River” project conducted in Detroit, job search assistance — including the assessment of each enrollee's skills and interests in relation to job openings — proved to be quite valuable.

In the proposed program, a participant would also

attend counseling sessions on the psychological and practical problems commonly encountered by displaced people. In addition, he or she would be exposed to labor market information from other parts of the state and, indeed, from other states. During this orientation process, the individual would from time to time be apprised of job openings in his or her fields of interest and experience.

If, after several months of counseling and job search assistance, the participant had not been relocated, he or she would be given information about educational and training opportunities and would be permitted to choose from the available programs the one most suited to his or her aptitudes and interests. A voucher would be provided to cover the full cost of relatively short retraining efforts and a percentage of the cost of longer term programs. The importance of individual choice in this program cannot be overemphasized. Someone embarking on a new career should not be at the mercy of a counselor who is trying to fill up a course. Nor should a displaced worker be compelled to undertake study in an area in which he or she has little interest just because "welders are in demand." While outside help in appraising alternatives can be important, workers tend to apply themselves most conscientiously in courses of training that *they* select.

After completion of training, a participant in the comprehensive plan would be eligible to resume a structured job search until suitable employment was obtained. A key element of this program is the identification of a group of people, experienced in the labor market and self-selected to participate in an active and vigorous job search and training endeavor, who are immediately available for employment. Employers seeking new workers should look first to this group for people with established work habits and a demonstrated interest in pursuing a new career path.

This program would draw on the resources and course offerings of existing educational and training institutions; generally it would not fund the establishment of new institutions or curricula. Counseling and job search assistance would be provided under separate contracts, by the State Employment Service and other qualified government agencies.

In most cases, job search and training opportunities would be focused on local labor market areas. It is recognized, however, that in some cases people would wish to move — or would be required to do so in order to achieve their job objectives. Generous mobility allowances should not be part of this program; people who are planning to move anyway should not be en-

couraged to enroll only to be eligible for relocation expenses. In those cases in which a move would be essential to a worker's reemployment, some public support might be appropriate. One option would be to provide low-cost loans or loan guarantees when jobs in other locations are offered and accepted.

The sequence of steps outlined above might for many workers require more time to complete successfully than the six to twelve month period for which unemployment insurance and supplemental benefits are currently provided. Displaced workers engaged in job search activities or training programs under the aegis of this program could be extended some income support after exhaustion of their regular benefits. These additional benefits would not be charged against the account of their former employers, but would be paid from a trust fund, as described below.

Program Costs

A program of this scope would cost in the neighborhood of \$3 billion a year. This figure is based on an annual participation of one million workers and an average cost of \$3,000 per participant (including an average of three months' income support after the exhaustion of unemployment insurance benefits and an average investment of \$1,500 per participant in training and job search assistance). In theory, the total cost could be considerably lower or higher, depending on how many workers actually enrolled, the nature of the services they required, and the length of time they remained in the program. In practice, however, expenditures would be constrained by fixed ceilings.

It is recommended that the set of initiatives outlined above be financed not from general revenue, but from the proceeds of a special "displaced worker insurance tax." A levy of one cent per hour on both employers and employees would raise close to the target amount. The moneys so collected would be placed in state trust funds that, unlike their unemployment insurance counterparts, would not be eligible to borrow from the federal government if the demand for services was greater than the special tax revenues could finance. Thus, all eligible people would be entitled to sign up for the program, but the magnitude of assistance provided to them would be limited by the funds available.

The program would be administered by the states so that appropriate links could be established with existing employment security and other employment and training programs. If the proposal were enacted, Title III of the JTPA could be folded into it.

Conclusion

The need for new microeconomic manpower programs serving the displaced worker has been recognized by responsible members of the business, labor, governmental, and academic communities. It is now time for the administration and Congress to take action. The interests of workers and of our economy as a whole require the substitution — and the sooner the better — of targeted manpower programs for counterproductive tariffs, quotas, and other restraints on market forces.

The importance of individual choice in this program cannot be overemphasized.

Religion and Political Realignment

A. James Reichley

THE FIRST WAVE of post-election analysis this year has downplayed the possibility that President Reagan's landslide victory portends an enduring national party realignment, with Republicans becoming the normal party of government. Some commentators have drawn parallels between the 1984 election and those of 1956 and 1972, in which Republican presidents running for second terms won by large margins without generating substantial Republican gains in Congress. In both of the previous cases the Democrats swept the next set of congressional elections and followed up two years later by winning the presidency.

What is really happening now, many political scientists argue, is not realignment but dealignment — a weakening of the propensity of voters to identify with one or another of the two major parties, rather than a historic shift in the party balance. According to these observers, increases in ticket-splitting and the decay of party loyalties will for the foreseeable future prevent either party from forming a stable national majority.

Some aspects of the current political situation may be read as lending support to the dealignment thesis. The share of voters calling themselves independents, though down slightly from its high in the 1970s, still amounts to more than one-fourth of the electorate. Recent Republican successes in presidential elections have not been matched by comparable advances in races for the House of Representatives or in state and local contests. The parties as institutions now ratify, rather than manage, the selection of candidates for major national and state offices. For many voters, ideological or economic interest groups seem to have replaced the parties as primary focuses of political behavior.

What are viewed as signs of party deterioration, however, may be no more than the characteristics typical of a transitional period preceding the emergence of a new majority coalition. The 1850s and the 1920s were also times in which the existing party system seemed to be decomposing. But, as the diagram on page 34 shows, they were followed by long periods in which one party was generally dominant.

There were several indications in this year's election of a long-term trend toward the Republicans. The surge of support for Reagan among young voters — a phenomenon that did not occur in 1980 — ran counter to the usual generational pattern of American politics for the last half-century. Among voters between the ages of 18 and 21, 40 percent now call themselves Republicans, compared to 34 percent who say they are Democrats. In 1984, members of this age group voted for Republicans over Democrats in contests for the House of Representatives by a margin of 54 percent to 46 percent. Republican candidates for the House of Representatives actually

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received about half of the total votes cast nationally, although they ended up with only a little more than two-fifths of the seats, partly because of gerrymandered congressional districts. Reagan's majority exceeded 60 percent in 32 states, mostly in the South and West, with 261 electoral votes — only nine less than are needed for election. Perhaps most important of all, pronounced shifts in a Republican direction took place in two politically crucial religious groups: evangelical Protestants and Roman Catholics.

Revolt of the Evangelicals

Until recently, white evangelical Protestants — who account for about 20 percent of the U.S. population — had divided their votes along regional lines. Those in the South were overwhelmingly Democratic. Those elsewhere in the country — residing mainly in rural areas of the Northeast and Midwest and in southern California — were generally Republican.

But the most important political fact about evangelicals was that because of their low level of political participation, they had a disproportionately small impact on electoral outcomes. Many evangelicals — particularly of the stricter sort known as fundamentalists — regarded secular politics as irrelevant to religious salvation and did not even register to vote. Scholarly studies during the 1960s, according to Robert Wuthnow, found “without exception . . . that evangelicals were less inclined toward political participation than were their less evangelical counterparts.”

Studies in the 1980s, by contrast, have just as uniformly shown evangelicals to be the religious group most favorable to political action by the churches. An ABC-Lou Harris survey in 1980 found 74 percent of white evangelicals, compared to 53 percent of white nonevangelicals, agreeing that “it is fitting and proper for religious groups to support candidates and to be active politically to restore morality to public life.” A Gallup poll in 1980 discovered that evangelicals were more likely than nonevangelicals to be registered to vote, despite being overrepresented in demographic groups with relatively low rates of political participation. What happened?

A succession of Supreme Court decisions — prohibiting the use of public school facilities for religious instruction, forbidding organized prayer or Bible reading in the schools, and establishing a constitutional right to abortion — convinced many evangelicals that the nation's traditional religious and moral values were under siege by an elite of “secular humanists.” Rising crime and declining family stability, evangelicals believed, were related to official indifference or hostility toward religion. Only a change in national political direction, they concluded, could reverse moral decay.

These sentiments were reinforced and given political focus by a new breed of fundamentalist television preachers, the best known of whom is Jerry Falwell of Thomas Road Baptist Church in Lynchburg, Virginia. While members of the first generation of television evangelists, like Billy Graham and Oral Roberts, had avoided direct political commitment, Falwell and other members of the new breed, such as James Robison and

Pat Robertson, plunged confidently into electoral politics. “We have enough votes,” Pat Robertson said, “to run the country.”

In 1976, the entrance into national politics of Jimmy Carter, himself a born-again Baptist, further stimulated political interest among evangelicals. Support from evangelicals, many of them voting for the first time, not only enabled Carter to become the first Democratic presidential candidate in 20 years to sweep most of the South, but also provided his margins of victory in northern industrial states with large rural populations, like Pennsylvania and Ohio.

As president, Carter was a great disappointment to his evangelical backers. His administration made no effort to press for action on social issues with high priorities for evangelicals, like school prayer and abortion. “It was a tremendous letdown, if not a betrayal,” said one evangelical leader, “to have Carter stumping for the [Equal Rights Amendment], for not stopping federally funded abortions, for advocating homosexual rights.”

Despite their disenchantment with Carter, many evangelicals had found their experience with politics exhilarating. “Evangelicals entered politics in the first place to defend their way of life,” Ronald Godwin, Falwell's chief political strategist, has said, “but before long they found that politics can be fun.”

Encouraged by their impact on the 1978 midterm elections, Falwell and other evangelical leaders, with help from secular conservative political organizers like Paul Weyrich and Howard Phillips, formed the Moral Majority, Inc., in 1979. Falwell announced that the Moral Majority would be a non-denominational political organization, composed of “Catholics, Jews, Protestants, Mormons, Fundamentalists,” united by the common goal of returning the United States to “moral sanity.” In practice, most of the chairmen of the state chapters, all appointed by Falwell, were fundamentalist evangelicals.

In 1980, Ronald Reagan was not initially the favorite presidential candidate of the fundamentalist leaders, who preferred more outspokenly conservative contenders like John Connally and Philip Crane. But once it became clear that Reagan would win the Republican nomination, the fundamentalists gave him enthusiastic support. The Moral Majority, Falwell said, would mobilize voters for Reagan “even if he has the devil running with him.”

Reagan moved quickly to establish solidarity with the evangelicals. “Religious America is awakening,” he told an evangelical conclave in Dallas, “perhaps just in time for our country's sake.” Under a Reagan administration, he promised, “traditional moral values” would be “reflected in public policy.”

Not only did the electoral participation of evangelicals increase in 1980, while turnout among most other groups declined, but their voting patterns in all parts of the country shifted dramatically toward the Republicans. *New York Times*/CBS exit polls found that 63 percent of white evangelicals voted for Reagan, compared to 33 percent for their former favorite, Jimmy Carter, and three percent for the independent candidate, John Anderson. Seymour Martin Lipset and Earl

Raab observed in an influential article in *Commentary*, questioning the impact of the religious right on the election, that this was no more than the share of the mainline Protestant vote that had gone to Reagan. But the critical point was that mainline Protestants have always been a major part of the Republican party's core vote, while evangelicals had formerly been divided, often tilting toward the Democrats.

Evangelical leaders began organizing early for the 1984 election, pushing voter registration among their followers to even higher levels. As a result of these efforts, Reagan swept the evangelical vote. *New York Times*/CBS exit polls found that 80 percent of white evangelicals cast their ballots for him, compared to only 20 percent for his Democratic opponent, Walter Mondale. Moreover, of the white evangelicals who voted in contests for the House of Representatives, 77 percent favored Republican candidates.

Though the electoral decisions of evangelicals are no doubt influenced by factors other than the social issues stressed by their preachers, these issues seem to have welded evangelicals, at least for the time being, into a cohesive voting bloc on the conservative side of the political spectrum. If Republicans are able to retain the support of this bloc, they will enter future elections with an important head start toward winning a national majority.

Catholics Against Abortion

Roman Catholics — the nation's largest single denomination, accounting for about 28 percent of the electorate — have shifted away from their traditional allegiance to the Democratic party, but without, thus far, coming down decisively on the Republican side. However, since in many industrial states the Democrats have customarily relied on large majorities from ethnic Catholics in metropolitan areas to offset Republican majorities in affluent suburbs and rural areas, an even split of the Catholic vote would be a net gain for the Republicans. In 1984, Ronald Reagan did a good deal better than breaking even.

Catholics have been predominantly Democratic since the early years of the republic. Large majorities of Catholics participated in the coalitions assembled by Thomas Jefferson and Andrew Jackson, and remained overwhelmingly loyal to the Democracy during the long Republican era stretching from the Civil War to the 1930s. This long-standing preference for the Democrats was due in part to the perception that the Democratic party was more concerned than its opposition with the interests of manual workers and the poor, among whom Catholics were disproportionately represented; and in part to the identification of the Republicans — and their predecessors, the Whigs — as Protestant parties.

Both the first Catholic chosen by a major party to run for president, Al Smith, and the first Catholic president, John Kennedy, were Democrats. Catholics cast a resounding 78 percent of their vote for Kennedy in 1960 and almost as large a portion, 76 percent, for Lyndon Johnson four years later. In both cases, these figures were far above the Democratic share of the total vote.

"Though the electoral decisions of evangelicals are no doubt influenced by factors other than the social issues stressed by their preachers, these issues seem to have welded evangelicals, at least for the time being, into a cohesive voting bloc on the conservative side of the political spectrum."

Even in 1968, when the Democrats lost the White House, 59 percent of Catholics voted for Hubert Humphrey, compared to only 33 percent for Richard Nixon and eight percent for George Wallace.

During the 1950s and 1960s, however, Catholics had begun to move in the direction of political conservatism. To some extent, this shift reflected the Church's vigorous anti-Communism. But it was more directly related to the rising affluence of the Catholic population and to tensions in urban areas between ethnic Catholics and blacks recently arrived from the South.

The 1972 election turned out to be a watershed event for Catholic voters. Faced with a choice between Nixon, their *bête noire* of 1960, and George McGovern, identified with economic and cultural radicalism, Catholics for the first time in American history gave a majority of their vote, 52 percent, to a Republican candidate for president.

In 1973, the Supreme Court's decision establishing a constitutional right to abortion introduced into national politics an issue directly related to religious values. The Catholic Church, soon joined by fundamentalist Protestants, responded to the Court's decision by launching a national campaign for a constitutional amendment to prohibit abortion.

In 1980, the Republican platform included promises to support "a constitutional amendment to restore protection of the right to life for unborn children" and legislation to provide tax credits to parents of students attending parochial schools. The platform of the Democratic party, the traditional home of most American Catholics, endorsed legalized abortion and was carefully ambiguous in its discussion of aid to non-public education. In November, Catholic voters, a majority of whom had returned to the Democratic column to vote for Jimmy Carter in 1976, favored Reagan over Carter by seven percentage points.

According to public opinion surveys, Catholics remain more liberal in their political attitudes than Protestants. The Catholic bishops, operating through the United States Catholic Conference in Washington, were critical of the first Reagan administration's cuts in federal welfare programs and of its hard-line policy against communist penetration of Central America. In 1983, the bishops issued a carefully reasoned pastoral letter on nuclear arms that stopped just short of denouncing the policy of nuclear deterrence followed by American administrations since the second World War. This year, after the election, the bishops debated the draft of a distinctly liberal letter on economic policy.

The abortion issue, however, has continued to draw Catholics toward the conservative camp. "I don't see," Archbishop John O'Connor of New York said in the spring of 1984, "how a Catholic in good conscience can vote for a candidate who explicitly advocates abortion." During the fall campaign, O'Connor and other leaders of the hierarchy vigorously criticized Geraldine Ferraro, the Democratic candidate for vice president, herself a Catholic, for allegedly misrepresenting the Church's position on abortion.

Some surveys have found that only about one-tenth of Catholics indicate that their political choices are affected primarily by opposition to abortion. This repre-

sents, however, almost three percent of the national electorate — more than the margin by which Jimmy Carter defeated Gerald Ford in 1976. Moreover, for voters who are influenced by it, opposition to abortion appears to be what is known as a conversion issue — that is, one that produces shifts of party affiliation.

Many leaders of the Catholic hierarchy and many lay Catholic voters seem torn between moderately liberal views on economic and foreign policy issues and inclinations toward conservatism on social and personal moral issues, including but not limited to abortion. In 1984, this mix of attitudes was reflected in Catholic voting patterns. At the presidential level, 55 percent of the Catholic vote went to Reagan and 44 percent to Mondale — an increase for Reagan of four points over his margin in 1980. In congressional contests, this pattern was reversed: Among Catholics voting for candidates for the House of Representatives, according to *New York Times*/CBS exit polls, 45 percent voted for Republicans and 55 percent for Democrats — a sharp departure from the Democratic dominance of the past.

Surveys of party identification indicate that a significant minority of Catholics — particularly Irish, German, and Italian Catholics — now regard themselves as firm Republicans. Hispanic Catholics, the fastest growing group within the American Church, remain overwhelmingly Democratic, but even they show a mild trend toward the Republicans. In 1984, Reagan received about one-third of the Hispanic vote.

Whether or not Catholics continue to move toward the Republicans, the time when Democratic candidates could count on almost automatic backing from solid majorities of Catholic voters seems irretrievably passed. As Republicans seem to have gained a reliable bloc of supporters among evangelicals, Democrats have lost the comparable advantage they previously held among Catholics.

Post-Liberal Jews

Two other groups that were central to the old Democratic majority coalition — blacks, who account for about ten percent of the national electorate, and Jews, who account for three percent — have maintained their loyalty to the Democracy. But since the 90 percent of blacks and 66 percent of Jews who voted for Mondale this year did not represent gains over historic patterns, these preponderancies did not offset losses for the Democrats among evangelicals and Catholics.

At one point in 1984, even Jews seemed to be swinging toward the Republicans. Revulsion against the anti-Semitism displayed by a few firebrand supporters of Jesse Jackson and suspicion of Jackson's own attitudes led many Jews to consider casting a Republican ballot. The role of the religious right at the Republican convention in Dallas and uncertainty about Reagan's commitment to religious pluralism shifted most Jews back to the Democrats. In the end, one observer suggested, the decision for Jews came down to whether they feared Jerry Falwell more than they disliked Jesse Jackson.

In 1980, 39 percent of Jewish voters had supported Reagan — the largest share of the Jewish vote going to a Republican candidate for president since Warren Har-

ding in 1920. And only 44 percent of Jews voted for Carter—the first time since 1928 that a majority of Jews had not voted Democratic for president. (The remaining 17 percent went to John Anderson and minor candidates.) “It was a real experience for many Jews,” Nathan Perlmutter, director of the Anti-Defamation League, has said, “to find that they could vote Republican without their hands freezing to the lever. Up until 1980, many Jews would have been more likely to become Christian Scientists than to become Republicans.”

The Jewish departure from the Democrats in 1980 was caused in part by doubts about Carter’s general competence—shared, as the results showed, by many other Americans. But there were also specifically Jewish concerns that affected voting behavior.

As some non-Jewish liberals became increasingly critical of Israel during the 1970s, many Jews looked to conservatives as more reliable supporters of the Jewish state. Concern for Israel and alarm over official anti-Semitism in the Soviet Union also led Jews to join conservatives in calling for stronger national defense. “More and more,” Hyman Bookbinder, director of the Washington office of the American Jewish Committee, explained, “Jews have come to recognize that we cannot show indifference to the whole question of defense of the West if we expect the defense of Israel to be supported by the United States. Traditionally, Jews have believed in spending more on social services and less on defense. But this attitude is changing.”

Jews have always been in the forefront of the fight to protect the civil rights of blacks. But during the 1970s, many Jews broke with other elements in the liberal community over the use of quotas in employment and university admissions to advance blacks and other disadvantaged minorities. Quotas, Jews pointed out, are the very devices long used by the older gentile establishment to discriminate against qualified Jews.

Finally, Jews are among the highest per capita income groups in the nation. As such, they have economic interests that, at least in the short run, are at odds with liberal programs calling for increased taxation and government spending.

Many Jews were disturbed by Reagan’s cuts in domestic service programs and by his courting of the religious right. Falwell and his associates, though they express strong support for Israel and insist on their commitment to separation of church and state, are suspected by many Jews of harboring plans to establish a national religion. Despite these concerns, however, in 1984 Jews gave Walter Mondale, a Democrat from the liberal tradition of Franklin Roosevelt and Hubert Humphrey with which most Jews identify, only two-thirds of their vote—about the same level of support granted to George McGovern in 1972 and far below the 81 percent gained by Humphrey in 1968.

The Protestant Ethic

Some liberal strategists hope that the so-called mainline Protestant denominations—such as the Methodists, Presbyterians, Lutherans, and Episcopalians—will yield Democratic gains to make up for the setbacks suffered among evangelicals and Catholics. Members of

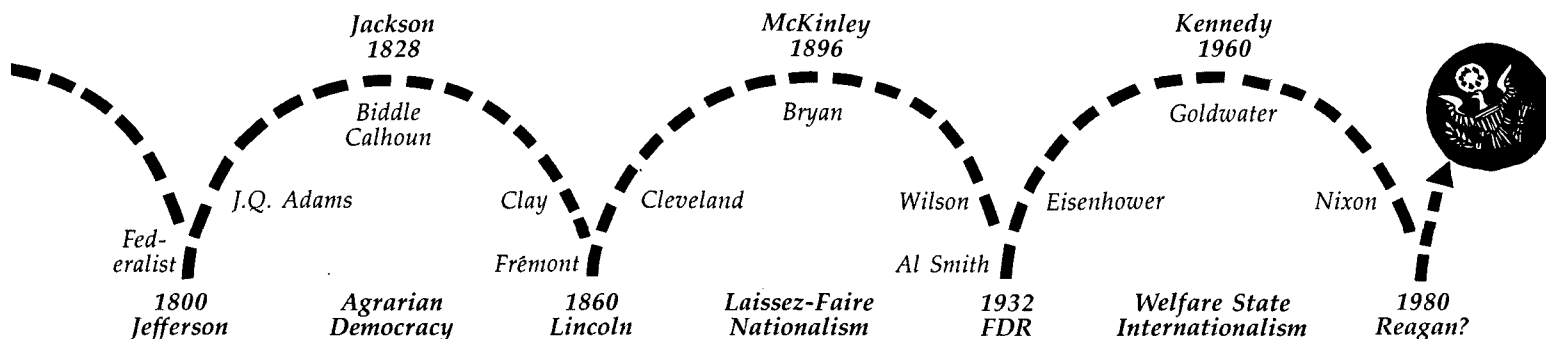
“... for voters who are influenced by it, opposition to abortion appears to be what is known as a conversion issue—that is, one that produces shifts of party affiliation.”

the mainline churches amount to about 30 percent of the electorate.

Since the Civil War, mainline Protestants, except in the South, have usually been overwhelmingly Republican; they have regarded the Republican party as the political conveyor of Protestant values. In recent years, however, the leaders of the larger mainline denominations have become increasingly liberal. Influenced by the tradition of the Social Gospel and by more recent formulations, such as the “liberation theology” developed by Catholic theorists in Latin America, many of their leaders have swung to the left—not only of the Republican party, but also of the main body of liberal Democrats.

In the closing days of the 1980 campaign, leaders of most of the mainline denominations signed a “theological statement” criticizing conservative evangelical groups for their activities on behalf of Reagan and conservative candidates for Congress. After Reagan’s inauguration, the Washington offices of the mainline Protestant churches steadfastly opposed the administration’s program to cut domestic spending and strengthen national defense. The mainline denominations also fought Reagan’s efforts to restore organized prayer to the public schools.

In 1981, the National Council of Churches, which often speaks for the mainline denominations on social matters, issued a manifesto charging that the administration’s policies represented “a reversal of direction for this country as a whole, and threaten the vision of America as the model and embodiment of a just and humane society.” The Reagan administration, in the NCC’s view, embodied “an old and seductive vision” of “America as private opportunity and empire.” The NCC offered an alternative vision of “America as public responsibility and compassionate neighbor.”



A New Political Era?

In the 1960s, some political commentators predicted that an epoch-making party realignment would soon take place. American political cycles, they observed, normally last about thirty years. Since the last realigning election had been Franklin Roosevelt's victory over Herbert Hoover in 1932, they expected that a new one would be coming up soon.

The Republicans did make some gains in 1968 and 1972, but the Democrats remained the majority party and recaptured the White House in 1976. It then became accepted wisdom that changes in social attitudes had so fundamentally altered political behavior that the pattern of political cycles had come to an end.

However, the prediction of realignment in the 1960s—and the conclusion, when it failed to materialize, that the sequence of cycles had been broken—may have been based on a misreading of American political history. It is true that climactic national elections have occurred at intervals of roughly thirty years. But every other one of these—and there have been no more than six since the founding of the republic—has reinforced the dominance of the existing majority party rather than bringing about a true realignment by establishing a new majority coalition.

Viewed from this perspective, there have been only three major political cycles since the election of Thomas Jefferson in 1800. The Federalist administrations of George Washington and John Adams represented the closing years of the nation-building period that began with the Great Awakening of the 1730s. The first full political cycle after independence, lasting from 1800 to 1860, was an era of agrarian democracy, dedicated to the pursuit of geographic expansion and equalitarian social ideals. The second, lasting from 1860 to 1932, was an era of laissez-faire nationalism, characterized by reliance on free-market economics and the emergence of national identity and power. And the third, which began with Roosevelt's election in 1932, has been an era of welfare state internationalism, emphasizing economic redistribution and global responsibility.

Each of these cycles has gone through roughly comparable phases, as depicted in the accompanying diagram. First comes a breakthrough election, in which a new coalition, put together by a master politician (Jefferson in 1800, Lincoln in 1860, FDR in 1932), defeats the majority party of the preceding era. In a burst of

creative political activity, the new majority party then launches its program. After a score of years, the dominant party seems to run out of steam, and a moderate administration, inspired in part by the outlook of the foregoing age, takes office (John Quincy Adams in 1824, Cleveland in 1884, Eisenhower in 1952). Rising from a period of recuperation, the majority party recovers its momentum and wins a climactic electoral triumph (Jackson in 1828, McKinley in 1896, John Kennedy in 1960).

Another period of governmental creativity follows. The political opposition shifts from moderation to radical reaction (represented in varying ways by Nicholas Biddle and John C. Calhoun in the 1830s, William Jennings Bryan in the 1890s, and Barry Goldwater in the 1960s). Having accomplished its historic mission, the dominant party next enters a phase of slow decline, sometimes hastened by an unpopular foreign war. The minority party produces a controversial leader who draws on issues and values of the past, while at the same time sounding themes of the age that lies ahead (Henry Clay, Woodrow Wilson, Richard Nixon). As the cycle nears its close, the existing party configuration seems to lose relevance, old political loyalties are shaken, and attempts are made to initiate a new political breakthrough. Finally, a realigning election takes place, and a new cycle begins.

All theories of political cycles should of course be taken with several grains of salt. Such theories are perhaps better thought of as metaphors for interpreting political experience than as scientific predictors of the future. However, the pattern posited here appears to have some biological foundation: When the leaders who were children at the outset of the last era, and whose attitudes were shaped by the excitement attending its emergence, begin to pass from the scene, the political environment may be hospitable to a new departure. It is also possible that an underlying long-wave economic cycle may be associated with the political one.

The question now is: Does the administration of Ronald Reagan, like those of Jefferson, Lincoln, and FDR, represent the beginning of a new political era? Or will it turn out to have been an abortive attempt at realignment, like those of John C. Fremont and Al Smith, that did not quite turn the corner into a new age?

Survey evidence indicates, however, that majorities among the laities in most mainline churches remain at least moderately conservative in their social and economic attitudes. Data gathered in the University of Michigan's 1980 National Election Survey show that, despite the "theological statement" released by their leaders, major mainline groups supported Reagan by large margins:

	Reagan	Carter	Anderson
Episcopalians	69	25	6
Lutherans	56	31	12
Methodists	53	40	5
Presbyterians	67	24	7
United Church of Christ	57	39	4

The relatively low margin for Reagan among Methodists, the most numerous of the mainline groups, seems to have been largely attributable to two factors: the high numbers of black Methodists, most of whom belong to independent black Methodist denominations, and the large proportion of Methodists in the South, where Carter retained some of his regional favorite-son popularity. Among northern members of the United Methodist Church, the main body of American Methodism, the vote for Reagan was probably at least as high as among members of the United Church of Christ.

Data on 1984 voting behavior by individual mainline denominations is not yet available. But since Reagan's overall majority among white non-evangelical Protestants this year rose to about 68 percent, his showing in most of the separate denominations must have been even higher than it was four years ago.

Economic, regional, and secular ideological interests, and inherited party loyalties, are important factors in keeping majorities of mainline Protestants in the Republican fold. But traditional Protestant values also play a part. For example, the theme words of the 1980 Republican platform — family, neighborhood, work, peace, and freedom — were practically a litany of the Protestant ethic. When Reagan calls for return of "voluntary, non-denominational prayer" to the public schools and promises support for "traditional moral values," he appeals not only to fundamentalists, but also to many members of mainline denominations who remain loyal to the conservative moral values they learned in Protestant Sunday schools. In sum, liberal hopes of shifting substantial numbers of mainline Protestants to the Democratic ranks are probably illusory.

A Chance for Realignment

Three underlying factors currently support a conservative trend in national politics and establish at least the possibility for a long-term party realignment favoring the Republicans:

(1) The essentially conservative position of the United States in world affairs. As the most prosperous and powerful nation on earth and as protector of democratic values against challenge by the international to-

talitarian left, the United States has a natural interest in world stability that is most readily carried out through conservative political leadership. In negotiations with the Soviet Union, conservatives have the great advantage of being able to close a deal without much fear of attack from the right — a consideration that the Soviet leaders themselves recognize.

(2) A general revival of confidence in the market as the best means for making most economic decisions. While this revival probably would not survive an extended downturn in economic conditions, at least for now the proponents of large-scale government intervention in the economy are identified with inflation and hard times. As the more market-oriented of the two parties, the Republicans benefit.

(3) Reaction against modernity. The decline in family stability, the proliferation of crime and violence, social alienation, spreading alcoholism and drug use, and other domestic disorders are associated by much of the public, rightly or wrongly, with the growing secularization of American life. While support for separation of church and state remains strong, many voters would like to see a renewal of traditional moral and religious values. Conservatives gain politically from their identification with these values.

On none of these issues are extreme positions favored by a majority of the electorate. Conservatives and Republicans enjoy an initial advantage because the tilt in public attitudes is toward their side of the political spectrum. But if conservatives in general and the Reagan administration in particular press too hard toward the right, the way will be open for liberals and Democrats to reoccupy the broad center where most voters still are found.

Thus, it appears that a majority of the public would welcome a moderate toughening of social restraints, including some imposed through government. But any attempt to carry out a narrow moral agenda by means of government fiat would unquestionably provoke a swift and adverse political reaction. Public opinion polls show that the Moral Majority is unpopular with the preponderance of voters, even in socially conservative states like Virginia and Texas. This is not because most voters disapprove of many of the social objectives advocated by the Moral Majority and other elements of the religious right, but because they reject pursuit of these goals through dogmatic absolutism of the kind they associate with the right. Overlapping majorities of Americans now favor *both* the reinforcement of traditional values *and* the preservation of social and religious pluralism.

Current social conditions provide a propitious political environment for an enduring party realignment. The Republicans, both because they are the more conservative of the two major parties and because they were the minority party in the last era, have a chance to become the vehicle for establishment of a new majority coalition. If they fail to offer workable programs or if economic or foreign policy catastrophes intervene, the Democrats may yet have a chance to return to dominance. In any case, the political alignments of the future are likely to be substantially different from those of the last half-century.

Press Officers and the Press

ALTHOUGH SOME of them may be household names, government spokesmen are generally left out of the decision-making process in their agencies, according to Stephen Hess.

"To serve effectively as an honest advocate for a political executive and his policies," Hess writes, "a press secretary must be 'in the loop,' Washington parlance for being included in the inner circle where alternative actions are debated, decisions concluded, and plans formulated." Yet Hess concludes in *The Government/Press Connection* that only one spokesman in five is a member of this inner circle.

He bases his conclusions on a year, 1981-82, that he spent as an inside observer of press operations at the White House, State Department, Pentagon, Department of Transportation, and the Food and Drug Administration.

"The most frequent and serious charge against press offices — that they manage, manipulate, or control the news — I found inaccurate," Hess writes. "They are simply not skillful enough or large enough to manipulate the news." Most of a press officer's energy is "devoted to trying to find out what the rest of the agency is doing, gathering material that has been requested by reporters rather than promoting carefully prepared positions, and distributing information that is neither controversial nor especially self-serving."

Hess is a senior fellow in the Governmental Studies program at Brookings. This study of news disseminators is a companion work to his earlier prize-winning book about news gatherers, *The Washington Reporters*. Both are part of his Newsworld series, which examines the press as a public policy institution and analyzes how it fits into the governmental process. The third volume will investigate the relationship between the Senate and the news media.

In *The Government/Press Connection*, Hess finds that "the attempts to manipulate the press — mostly through leaks — were made by political officials [rather than press officers], often with simplistic and misguided notions of the news media."

When the leaks are meant to "communicate between Washington players — officials, politicians, interest group representatives," Hess believes that "the consumers have a right to feel used by both government and press insiders, especially when reporters seem unwilling to pass along their sources' motives for revealing information."

Hess presents a typology of why government workers give unauthorized information to reporters: the ego leak, primarily to satisfy a sense of self-importance; the goodwill leak, a play for a future favor; the policy leak, a pitch for or against a proposal using some document or inside information to attract extra attention; the animus leak, used to settle grudges or embarrass another person; the trial-balloon leak, revealing a proposal that is under consideration in order to assess its assets and liabilities; and the whistleblower leak, employed by career personnel as a last resort to correct a perceived wrong. "I believe ego is the most frequent cause of leaking, although it may not account for the major leaks," Hess writes.

Hess's book shows how the State Department's daily press briefing serves two highly useful purposes for government that have nothing to do with press relations. First, the preparation of the spokesman's briefing book is a means of negotiating positions within the government, mostly among the bureaus of the State Department but also interdepartmentally among State, Defense, and the White House. Second, the briefing process produces a collection of statements that are cabled around the world to all posts by

The Government/Press Connection

by Stephen Hess.

\$8.95 paper; \$22.95 cloth.

The Government/Press Connection

Stephen Hess



mid-afternoon as official U.S. foreign policy.

"These purposes are considerably removed from the initial intention of answering the questions of the reporters regularly assigned to the diplomacy beat," Hess writes. State Department briefings may once have been seen as a response to reporters' needs, but they no longer are, he says. "The message is not the media; the media provide the excuse for producing the message."

Hess examines the press strategies of the State Department and the Pentagon and finds that the two have adopted markedly different organizational methods for their press offices to respond to routine crises, procedures that tend to have contrasting effects on press coverage and press relations. The Pentagon is organized for wholesale dissemination of information, he says. All reporters calling in are guaranteed fast service, the same basic information, and no more. But the State Department uses a retail organizational strategy in a crisis. The crisis gets reassigned from the bureau of the region in which the event occurred to a specially constructed task force.

Hess criticizes the administration's handling of the Grenada invasion, which the press was excluded from covering. The president's policy, he says, redirected the press to get its news from Radio Havana, amateur radio operations, rumor mills, and political opponents of the administration. "The price paid by the nation for the administration's press policy was less accurate news," he writes. "The price paid by the administration was fewer favorable stories."

A key problem for all press secretaries is the issue of lying. Hess writes: "Spokesmen are expected to tell the truth—it is U.S. government policy. They also prefer to tell the truth; to lie is to fail to play fair with reporters and the public, to diminish their self-esteem, and to complicate their work. But spokesmen are also expected to support the administration, which in turn is expected to act in the best interests of the American people, and that may sometimes require withholding full information."

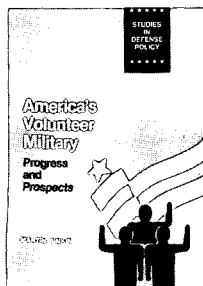
Hess reviews the press secretaries' use of "the honest lie, the inadvertent lie, the half-truth, and the lie." An honest lie would be White House press secretary Jody Powell's statements that were designed to protect the Iranian hostage rescue mission. Hess concludes that during 1981-82 he watched government spokesmen deliver half-truths many times, but that he seldom saw outright lying and "the incidents all involved small matters."

The Future of the Volunteer Military

America's Volunteer Military: Progress and Prospects

by Martin Binkin.

\$6.95 paper.



A NEW STUDY by Martin Binkin finds that despite its recent success, the volunteer military is not assured of survival. It is threatened by a potential convergence of demographic, technical, and economic factors in the next decade that could increase the demand for qualified recruits and decrease their supply. This squeeze may require new manpower policies or a return to peacetime conscription to meet the nation's military needs, Binkin writes in *America's Volunteer Military: Progress and Prospects*.

Binkin, a senior fellow in the Brookings Foreign Policy Studies program and a specialist in defense manpower policy, reviews how the country fared in manning the armed forces with volunteers in the first 10 years after the end of the draft. He then assesses the prospects for maintaining the volunteer system, taking into account the upcoming decline in the youth population, anticipated increases in the complexity of military weapons, expected competition from higher education institutions, and possible changes in the economy.

His review of the first decade without conscription shows that the fortunes of an all-volunteer military have been tied closely to economic factors.

For the first several years, the typical volunteer, while less likely than his draft-era predecessor to have had college experience, was more likely to have received a high school diploma and to have scored higher on the standardized entry test. But in the latter 1970s — as military pay raises lagged behind civilian increases, as educational benefits for the military were reduced while student aid for civilians was increased, and as recruiting and advertising budgets failed to keep pace with inflation — the services encountered severe problems in their efforts to attract qualified volunteers. The Army was especially affected, as 44 percent of its recruits during the period 1977-80 scored in the lowest aptitude category on the Armed Forces Qualification Test.

During this same period all of the military services were expressing concern about heavy losses of experienced specialists, technicians, and supervisors. Little progress was being made toward remedying the manpower shortages that had plagued Army reserve forces since the end of conscription. Moreover, the racial composition of ground forces was becoming increasingly unrepresentative of the American population. By the end of the seventies, the nation appeared close to considering a return to conscription.

The unfavorable trends bottomed out at the turn of the decade as new military pay raises, intensified recruiting efforts, and a depressed civilian job market combined to make the early 1980s a success for the all-volunteer force. By 1983, the services were recruiting record proportions of high school graduates, retention problems had all but disappeared, reserve manning had improved, and recruits were more representative of the population. The all-volunteer force was being hailed as an unqualified success.

Binkin concludes, however, that current unbridled optimism may be premature. It remains to be seen whether military recruiters can continue their success as the youth population shrinks, the armed forces seek more and, perhaps, better recruits, and the economy continues to recover.

The author assesses the magnitude of the future recruiting task in terms of the proportion of the "qualified and available" male population that the services have to attract to meet planned recruit requirements. (The "qualified and available" pool excludes those who *cannot* volunteer because they would not meet physical, mental, or moral standards and those who are *unlikely* to volunteer because they have completed at least two years of college.) Binkin finds that by the early 1990s, the services will need to attract about 55 percent of this pool, compared with 42 percent in the early 1980s.

If the volunteer system is to survive the upcoming demographic shift, substantial investment in the military payroll and recruiting budget may be necessary, Binkin warns. He outlines a number of less costly measures that can be taken to avoid recruitment shortfalls:

- The role of women in the armed services could be expanded further.
- Additional civilians, both federal and contract, could be substituted for uniformed personnel in certain occupations.
- Personnel turnover could be reduced by using financial inducements to encourage members of the armed forces to serve longer periods.
- Military recruiters could penetrate new markets, such as two-year vocational and technical institutions.

If the Reagan administration's blueprint for bolstering U.S. conventional power is followed or anticipated advances in military technology are made, he says, the armed services might have to enlist up to two-thirds of the qualified and available pool. And if institutions of higher education attempt to increase their share of the smaller youth market to offset declining recruitments, the military's problems would be compounded.

If the 1990s were to bring a combination of larger forces, stricter entry standards, and higher college participation rates, the military services would have to attract up to three-quarters of the qualified and available male population. "This would be a monumental challenge under any circumstances and probably insurmountable in a healthy economy," Binkin writes. In this worst case situation, he contends, it is doubtful that adjusting military pay or tinkering with manpower policies could prevent substantial recruit-

ment shortages and serious calls for a revival of conscription.

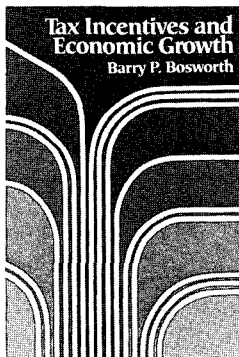
Binkin concludes: "Unless the body politic can be counted upon to support peacetime conscription, it would be risky either to expand the size of the armed forces or to develop increasingly complicated weapons systems. If either course is considered vital for security purposes, then the nation's leadership should make these purposes clear and should prepare the American people for the reinstitution of compulsory service. Otherwise, the United States could end up fielding military forces in the 1990s whose effectiveness would depend on a military draft, only to find a citizenry unwilling to support it."

A Dissection of Supply-side Economics

Tax Incentives and Economic Growth

By Barry P. Bosworth.

\$9.95 paper; \$26.95 cloth.



"SUPPLY-SIDE" economists have drastically overstated the impact that tax incentives have on economic growth, according to Barry P. Bosworth. Tax policy can enhance growth by stimulating saving, investment, and work effort, Bosworth says, but the failure to integrate the 1981 tax changes with fiscal and monetary policy hurts efforts to expand economic growth.

In *Tax Incentives and Economic Growth*, Bosworth, a senior fellow in the Brookings Economic Studies program, reviews the findings of economic research in three areas where tax policy is believed to have important effects on private decisions: saving, investment, and labor supply.

Tax changes have encouraged individuals to redirect a substantial portion of their savings into tax-exempt assets, but total savings have not increased. The private saving rate failed to rise after 1981 — as the administration claimed it would — even with an apparently large increase in after-tax returns on saving.

Even if a tax reduction should succeed in increasing private saving, it may not lead to an increase in the resources available for capital formation, Bosworth says. A tax cut, if not matched by an equal reduction in government expenditures, would leave the national saving rate unchanged even if the private sector saved the entire tax reduction.

"Given the uncertainties surrounding private saving behavior, direct actions to shift the government budget toward a surplus are a more certain means of increasing national saving," he suggests.

The evidence suggests that taxes can have more of an impact on investment than on saving, Bosworth says, and investment tax incentives have been an effective means in the past of encouraging private capital formation. But while much of the public discussion has emphasized the average overall tax rate on capital, there is a wide variance in tax rates on different types of capital. That variation seriously distorts the allocation of investment and leads to a waste of resources, he says.

Lower tax rates and economic recovery have stimulated domestic investment, but the lack of domestic saving has required enormous overseas borrowing, according to Bosworth. The result is that most of the future benefits of that investment will go to foreign owners rather than to the domestic economy.

Studies over the last 20 years indicate that taxes and government transfer programs are more important influences on work decisions than was previously believed to be the case, Bosworth writes. This is notable because there has been a substantial increase in the tax on labor. In part, this is the result of increased social security taxes, the disincentive effect of which may be offset by the gain in future benefits. But the increased tax on wage earners also reflects a general government policy of shifting the burden of taxation from capital to wage income. While this may encourage capital formation, it discourages work effort.

There is increasing evidence that the transfer programs — unemployment and social security in particular — do reduce work effort. However, the effect on aggregate supply may be small because, as one study points out, most transfer programs are narrowly targeted to those groups whose members are least expected to work — the disabled, the elderly, and broken families — and generally have low productivity when they are employed, he notes.

Bosworth indicates that a basic problem of the tax system is the variation in tax rates on different types of capital. Some investments are actually subsidized by the tax system while others are taxed at prohibitive rates. Either a consumption tax or a comprehensive income tax could eliminate most of the distortions in the current treatment of different types of capital income, he says. "The issue is not so much the form of the tax as the problem of dealing with tax preferences that arise in both cases. The comprehensive income tax is aimed at eliminating the preferences — bringing all forms of income back into the tax base; the consumption tax extends them to all forms of capital income."

Bosworth emphasizes the importance for growth of reasonable fiscal and monetary policies. A strategy to promote growth, he says, requires a shift away from the combination of policies that dominated the early 1980s: large budget deficits offset by a restrictive monetary policy.

"The contention of this study is that for purposes of promoting long-term growth the appropriate mix of stabilization policy is exactly the opposite of that which emerged from the decisions of 1981," he writes. "Given the evidence that private saving is rather immune to manipulation by government, government should expand the incentives for domestic investment and provide the required financing directly by reducing its own budget deficits."

Considering the responses of saving, investment, and the foreign exchange rate to interest rates and tax incentives, it would seem "that economic growth would be favored by a mix of policy that is tilted in the direction of fiscal restraint to provide for an increase in national saving and a monetary policy that encourages with low interest rates the pass-through of the saving into investment."

Tax policy has an important role to play, Bosworth concludes, but it must be evaluated within the confines of an overall fiscal-monetary strategy. "The greatest potential for gains would seem to lie in eliminating the distortions in the use of capital that the current tax system promotes."

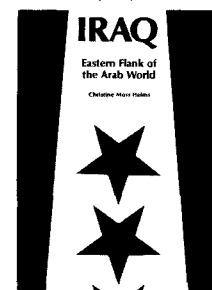
Inside Iraq

THE WAR BETWEEN Iran and Iraq will affect the energy economy of the West and prospects for political stability in the Arab Gulf, according to Christine Moss Helms, yet Iraq remains a mystery to Western nations. In *Iraq: Eastern Flank of the Arab World*, Helms seeks to enlarge understanding of Iraq and the concerns of its leaders.

The war has drawn attention to Iraq as an economic and political actor, observes Helms, a research associate in the Brookings Foreign Policy Studies program. Even after the war is over, Iraq will retain an important role within the region and be of growing significance to the United States, Europe, and Japan, she says. Its importance stems from its strategic and historical position, the size of its oil reserves and potential oil revenues, and its potential for economic diversification. Indeed, Iraq is unique among Middle East countries because of its capacity for long-term economic development based on a non-oil economy, Helms notes. Its other resources, such as water, offer the possibility of an expanded base in both agriculture and industry.

Iraq: Eastern Flank of the Arab World

by Christine Moss Helms.
\$9.95 paper; \$28.95 cloth.



The fact that Iraq borders two states — Saudi Arabia and Turkey — that are currently identified with Western interests places it in an area of strategic concern to both superpowers, Helms says. It also occupies a pivotal position between Israel to the west and the Gulf to the east, where it forms the eastern flank of the Arab world. After the war is over, Helms writes, Iraq has the potential to act as a buffer and an ally — politically, economically, and militarily — for neighboring Arab countries.

Helms explores the forces that have been instrumental in shaping the present Iraqi state. The country's geography, climate, and the availability of water have created diverse regional economies within the state, she says. This has contributed to continual tension between the state, present in the central authority within defined boundaries, and the Iraqi nation, consisting of a number of smaller, autonomous social groups.

"So pervasive is the tension between the state and nation that it affects socioeconomic development, internal political consolidation, the legitimacy of the central government, and relations with neighboring countries," Helms writes. "Those who seek an explanation for the war with Iran will find the beginning of it here."

Iraq's geography and resources, its pluralism — reflected not only in regional economies but also in numerous cultural, ethnic, linguistic, and religious groups — and its historical position as a frontier region are factors that will continue to shape the internal and external policies of the Iraqi government regardless of the ideologies of the ruling elite, Helms says.

She examines the popular aspirations that both motivate and constrain Iraqi leaders. Those aspirations are shaped by a history of foreign intervention in domestic affairs, by traditions that are largely Arab and Islamic, by evolving feelings of nationalism, by expectations of rising living standards, by tensions created by pluralism, and by the evolution of competing political philosophies.

She discusses in depth the Arab Ba'ith Socialist party, which has dominated Iraqi political life since 1968. She outlines the history of the party, why it achieved some success against other political parties, the practical departures of its doctrines from their theoretical formulations, its operation under leader Saddam Husain, and its efforts to reach the broader public.

The Ba'ith party is characterized by discipline and secrecy, Helms observes, and is an elite group of educated Iraqis. The party's three main goals are: Arab unity, because it is perceived to be a solution to the region's problems; freedom, in the sense of internal democracy and independence from external domination; and social advancement. Iraqi governments in general and the Ba'ithists in particular are pragmatists, she says, who have always faced two challenges: acceptance by the population as a whole and good relations with neighboring countries.

Because Iraq is surrounded by six other countries and has only 13 kilometers of coastline fronting the Gulf, Iraqis feel strategically vulnerable, Helms says. This has resulted often in defensive as well as offensive solutions.

Helms devotes a major part of her study to an analysis of the war between Iran and Iraq — its causes and the decisions that the Ba'ithist government has made in light of its goals and its assumptions about Iran. The war is not simply a war over borders, she writes, but the product of a deep conflict between two competing ideologies: Arab nationalism and Islamic conservatism.

While conflicting territorial claims and ancient Persian-Arab antipathies between the two nations were factors in the calculus of war, the fundamental cause of the fighting was a perceived threat from revolutionary Iran to the Iraqi Ba'ithist party and the Iraqi state, according to Helms. The extreme brand of Islamic conservatism espoused by Ayatollah Khomeini of Iran and the Arab nationalism of the Ba'ithists are essentially irreconcilable, she maintains, because the former recognizes no political or geographical bounds to expansion of the revolution and the latter rejects the domination of religious elements in the administration of the state.

The Iraqi goal in the war was to dissuade Iran from inciting dissidence among Iraqi social groups, such as the large Shi'i population, and to discredit, or encourage the overthrow of, extreme Islamic conservatives after

the revolution and thus lessen the threat from that nation. "The attainment of these objectives depended upon the accuracy of Iraqi assumptions about Iran's ability to conduct a war and the will of its people to fight," Helms writes. "Having miscalculated, the Ba'athist government expected a short war but now finds itself in a war of attrition it is ill-prepared to sustain, and from which it has found no acceptable exit."

The Soviet Energy Strategy

ACCORDING TO Ed A. Hewett, the Soviet Union's oil output is stagnating and may soon fall, but the magnitude of its energy reserves and its flexibility in energy production and consumption ensure that it will remain an energy-exporting nation into the next decade.

In *Energy, Economics, and Foreign Policy in the Soviet Union*, Hewett finds that energy exports play an important role in the Soviet economy, accounting for approximately three-quarters of the hard currency earned from sales of non-military goods and services in the West in the early 1980s. Moreover, energy exports to Eastern Europe at subsidized prices have been a critical link in the Soviet-East European relationship.

Hewett, a senior fellow in the Brookings Foreign Policy Studies program, notes that in 1977, a CIA report predicted that Soviet oil output would fall precipitously in the early 1980s and that the Soviet Union would become a net importer of oil. Some feared that this circumstance could lead to a Soviet military threat to Persian Gulf oilfields.

Oil output has, in fact, stagnated and could soon decline, Hewett writes — though not as soon as the CIA predicted. Even so, Soviet oil exports have risen. These apparently contradictory trends are a result of a rapid expansion in the production and use of natural gas, which has freed up oil for export, and of the Soviet decision to divert to hard currency markets some of the oil exports previously sold to Eastern Europe.

These recent developments underscore the importance of viewing the energy sector as a whole, Hewett says, and of analyzing how the Soviets can manipulate the supply and demand of oil, gas, coal, and unconventional sources in an effort to meet their needs for hard currency while maintaining their relationship with client states.

According to Hewett, expanded oil supplies permitted increases in consumption and exports in the 1960s and 1970s. As oil output has stagnated, natural gas output has grown rapidly to meet rising demands for domestic use and export. Nuclear power, which now accounts for only two percent of total energy supplies, can be expected to become increasingly significant, he says. Coal output, stable since the late 1970s, will continue to stagnate in the 1990s, he predicts.

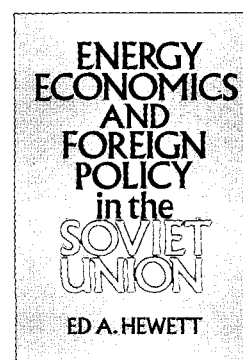
Despite the successes the Soviets have had in generating energy supplies sufficient to meet their domestic and export needs, Hewett shows that the costs of continuing that supply-oriented strategy are escalating. The sparsely populated, inhospitable lands of northwestern and central Siberia now account for more than half of Soviet oil output and almost half of Soviet natural gas output. Since virtually all of the increments to oil and natural gas output are now coming from those regions, the investment costs associated with the production and transportation of energy are increasing dramatically.

Investment in the production of primary energy and electric power, which accounted for 28 percent of industrial investment in 1977 and 35 percent in 1982, is continuing to rise, he finds. This acceleration in energy investment is crowding out investment in other sectors, putting increased pressure on planners to look more closely at the possibilities for energy conservation.

Energy, Economics, and Foreign Policy in the Soviet Union

By Ed A. Hewett.

\$10.95 paper; \$28.95 cloth.



Soviet energy consumption is extraordinarily high by world standards, Hewett says. As a proportion of GNP, energy consumption in the Soviet Union is 2.5 times that in the European Community. The potential for conservation would seem to be large, he writes. Soviet planners have launched intense efforts to exploit that potential and it is conceivable that they will manage to reduce somewhat the growth of energy demand.

Hewett concludes, however, that the Soviets will not be able to match the impressive energy conservation results in Western countries over the last decade until they introduce comprehensive economic reforms that force managers to conserve on all inputs, including energy. In addition, more vigorous efforts to conserve energy in the Soviet economy cannot succeed unless Soviet planners are willing to divert investment resources away from energy production toward energy conservation, he says.

Hewett examines the effects of Soviet foreign policy on Soviet energy and economics. If East-West relations were better than they are now, he observes, the Soviet Union might be able to generate a large net capital inflow as Western banks and governments invested in Soviet energy and raw material production. He notes also that the exporting of cheap energy to Eastern Europe and Cuba has been costly to the Soviet economy.

Inexpensive Soviet energy has allowed the Eastern European countries to achieve satisfactory records of economic performance. A leveling off of energy shipments to these countries could put a halt to economic growth there; a sustained decline could reduce national incomes and, as a result, popular support for Eastern European regimes. Support for these regimes depends on their ability to obtain a good political and economic "deal" with the Soviets, Hewett says. Erosion of even the illusion of a good deal and of economic progress could lead to widespread discontent, with strikes or other signs of unrest.

"Having allowed Eastern Europe to postpone its response to the effects of the energy crisis — at considerable costs to the Soviet economy — the issue now is how gradually to force Eastern Europe to come to terms with the new price of energy," he writes. "Higher costs, in the context of a relatively slow growth of national incomes, will act as a continuous source of pressure on Soviet leaders to recast their relationship with Eastern Europe."

The Soviet energy situation is of interest to the United States for several reasons, Hewett says. First, the deterioration in Soviet economic performance, which is due in part to the rising costs of increments to energy supplies, may have political implications within the Soviet Union — or implications for Soviet capabilities to sustain high growth rates for military expenditures.

Secondly, the U.S. is concerned about the impact of growing Soviet gas supplies on the USSR's economic relations with Western Europe. "If the Soviet Union and Western Europe agree to rapid expansion of Soviet gas sales," he writes, "that will create increasingly strong bonds between Europe and the USSR."

Third, the U.S. has an interest in the political implications of changing Soviet-Eastern European economic relations. "If the Soviet Union continues to increase economic pressure on Eastern Europe," Hewett suggests, "political problems could arise in Eastern Europe that would once again draw the Soviet Union and the United States into conflict over Soviet control of the region."

There is probably little that the U.S. can do to influence the development of the Soviet energy sector, according to Hewett. Almost all of the energy technologies the Soviets are seeking are available from Europe or Japan or are made in the USSR. "However unpleasant it may be to admit it," he concludes, "U.S. leaders must realize that Soviet energy prospects are — in all important ways — a matter about which the Soviets themselves will decide."

Conference on French Industrial Policy

IN SEPTEMBER, the Advanced Study Program at Brookings convened a distinguished group of speakers, drawn from both France and the United States, to explore the French experience with industrial policy and the implications of that experience for the United States. The discussion ranged over a wide variety of topics, including export promotion, methods of economic planning, the mechanisms used to encourage the growth of new industries, and the strategies pursued to ease adjustments in declining sectors. Financial support for the conference was provided by the German Marshall Fund of the United States, the French-American Foundation, and the French government.

Bernard Vernier-Palliez



Photographs by Linda Bartlett



Above: Roger B. Porter

Above Right: Michel Freyche

Right: Robert Strauss and Senator Donald W. Riegle





Above: Francois Perrin-Pelletier and Raymond Levy

Right: Christian Stoffaes and Francois Lagrange



Among the experts who made presentations at the gathering were Bernard Vernier-Palliez, the French ambassador to the United States; Martin Malvy, secretary of state for energy in the French Ministry of Industry; Francois Lagrange, member of the French Council of State; Roger B. Porter, deputy assistant to President Reagan for policy development; Francois Perrin-Pelletier, counselor to the president of Peugeot S.A.; Michel Freyche, president of the French Export-Import Bank; Donald Riegle, U.S. senator from Michigan; Raymond Levy, vice president of ERAP Petroleum Corporation; and Robert Strauss, former U.S. trade representative and now a partner in the law firm of Akin, Gump, Strauss, Hauer & Feld. William J. Adams of the University of Michigan and Christian Stoffaes of the Institute of Political Studies in Paris will edit, and Brookings will publish, a volume that collects the papers prepared for the gathering and summarizes the comments that they elicited.

Speech on National Security Policy

EACH YEAR, the Advanced Study Program at the Brookings Institution, in cooperation with the Naval Aviation Executive Institute, sponsors a special lecture on defense and national security policy. This year's lecture was delivered in June by Admiral B. R. Inman, USN (Ret.), a member of the Brookings board of trustees. Admiral Inman, formerly the deputy director of the Central Intelligence Agency, is now president and chief executive officer of Microelectronics and Computer Technology Corporation. His speech was entitled "Challenges and Confrontations to the End of the Century." Introductory remarks were made by Vice Admiral J. B. Busey, Commander of the Naval Air Systems Command.

Admiral B. R. Inman, USN (Ret.)



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The Advanced Study Program has two purposes. The first is to provide continuing education to America's leaders—in business, government, and non-profit organizations—about current issues of domestic and foreign policy, in the expectation that a better understanding of

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February 6, 1985

European Community: Economic Relations and National Security Interests

- Problems within the EEC and their implications for U.S.-European relations
- The future of the Atlantic alliance
- U.S. and European defense commitments
- Europe as a trading partner

March 6, 1985

Agenda for the Nation: The Next Four Years

- The implications of the election
- Major domestic and economic policy objectives of the new administration
- The U.S. role in maintaining global stability
- The outlook for executive-congressional relationships: conflict or cooperation?

March 27, 1985

Arms Control

- The relationship between arms control and U.S. security policy
- Issues involved in limiting nuclear weapons
- Problems of achieving balance in conventional forces
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